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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND CERTAIN INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
SECOND SESSION

ON

H.R. 6956

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1983, AND FOR OTHER PURPOSES

PART 2 (Pages 922–1535)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOME LOAN BANK BOARD
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL INSTITUTE OF BUILDING SCIENCES
NATIONAL SCIENCE FOUNDATION
NEIGHBORHOOD REINVESTMENT CORPORATION

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
15-583 O WASHINGTON : 1983

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

S181-17

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, APRIL 27, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m. in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senator Garn.

NATIONAL SCIENCE FOUNDATION

STATEMENT OF JOHN B. SLAUGHTER, DIRECTOR

ACCOMPANIED BY:
LEWIS M. BRANSCOMB, CHAIRMAN, NATIONAL SCIENCE BOARD
DONALD N. LANGENBERG, DEPUTY DIRECTOR, NATIONAL SCIENCE FOUNDATION

SUBCOMMITTEE PROCEDURE

Senator GARN. The subcommittee will come to order.

The National Science Foundation is the principal Federal agency for the support of basic research across all fields of science and science education at universities and colleges. NSF accounts for about 30 percent of all Federal support for basic research going to academic institutions. In some fields, NSF provides the dominant share of Federal basic research support: More than 66 percent in ground-based astronomy; 60 percent in environmental sciences, and over 50 percent in mathematics and engineering.

About 2,000 colleges, universities, industrial firms, and other institutions and organizations participate in NSF programs. Additionally, over 200 small business firms are involved in NSF-supported research, mostly in applied research areas.

The quality of research is determined and maintained through a system of peer review. More than 30,000 scientists, engineers, and science educators in all parts of the United States participate in NSF peer review each year. NSF staff members who are scientists, engineers, or science educators make the final award decisions.

BUDGET REQUEST

For fiscal year 1983, you are requesting $1,072,768,000. This represents an increase of $79,093,000, which is the net effect of: An increase of $85,873,000 in research and related activities; a decrease of $5,900,000 in science education activities; and a decrease of $880,000 in your special foreign currency program.

You have approximately a 10-page statement. If you would like to summarize it, we will certainly place all of it in the record. We are happy to have all three of you here to testify on behalf of your budget this morning.

Dr. SLAUGHTER. Thank you, Senator. The Chairman of the National Science Board, Dr. Lewis M. Branscomb, is on my left; Dr. Donald N. Langenberg, the Deputy Director of the Foundation, is on my right. We will be happy to respond to questions from the committee as we testify this morning. I intend to make brief, introductory remarks. As you have already said, my written statement has been provided for the record.

STATEMENT HIGHLIGHTED

I would like to spend a few moments talking about some of the issues that we believe to be important in science and to point out the need for addressing the excitement, the interesting activities occurring in science.

This committee, of course, has a tremendous responsibility for overseeing the fiscal accountability of expenditures in science. The committee's audit and oversight roles are essential. But NSF believes it is also critically necessary to address matters of scientific substance—capture the excitement, the glamor, the sense of discovery, the pursuit of science; and the frustration, hard work, and drudgery, too.

We are fortunate at the Foundation, and I believe this committee is also fortunate, that a part of its responsibility is the oversight of NSF, because we have an opportunity to discuss the status of science, the outlook for science, and the extent of national preparedness for continued excellence in science.

The numbers in NSF's budget request, while informative standing alone, fail to show that the work supported by the National Science Foundation continues to be of the highest quality; it has a beauty, dimension, and potential unexcelled in any previous period. Those numbers also fail to show the inextricable relationships that exist between NSF programs—the science—and the national efforts to strengthen the economy, restore productive capability, revitalize industries, and protect citizens and shores from potential aggressors.

The budget request that NSF prepared and over which your staff pored to prepare for this hearing cannot possibly eliminate the splendor and power of the science referred referred to in its pages.

FIVE-YEAR OUTLOOK

Recently, NSF sent to the Congress a document entitled, "Outlook for Science and Technology, the Next Five Years." Much more than the budget request, that document expresses some of the thoughts important for NSF to convey to the committee and to provide the information needed for your difficult job.

In that document, NSF suggests that science and technology in this country are mature and highly productive. But future decisions in science must be based on an ever-widening range of improvements in the understanding of science and on the need to extend scientific and technological literacy throughout the country. In that context, there are many scientific and technological opportunities in all fields of science, but we need to recognize that social and economic factors must also be considered before those opportunities can be addressed.

The U.S. scientific research remains among the finest in the world, although we are no longer the world leader in some technological fields such as automotive design, consumer electronics, scientific instrumentation, and steelmaking. But the United States is also in danger of losing its lead in some defense-related industries.

Improved economic conditions and new Federal policies expected to occur during the next 5 years may increase the prospects for private-sector investments in research and development. Currently, however, the science community faces limited funds, shortages of personnel in computer and engineering sciences, escalating instrumentation costs, and pressures for quick returns on investments. Consequently, the public and private sectors are finding it more and more difficult to make the investments necessary to maintain U.S. strength in science and technology.

NSF hopes that there will be increasing incentives in the tax laws, more favorable patent and antitrust policies, and fewer regulatory disincentives to long-term R. & D. investments.

The Foundation expects greater use of centralized research facilities; more cooperation between universities and industry; more jointly owned and operated research facilities in university-based industrial centers; more cooperation among Government agencies, industry, and university laboratories; and more international cooperation where major, large-scale investments are required.

In that 5-year outlook, Senator, we mention some exciting activities in science. For example, robotics and artificial intelligence represent an important area for National Science Foundation support. These activities, in conjunction with research in high-speed, integrated circuits, will have a positive impact upon industrial manufacturing processes and the next generation of intelligence systems so important to industry and defense.

In material sciences, stronger, lighter, more heat-resistant materials can be of great aid in such fields as aeronautics. Research on such materials will continue to be an important part of the Foundation's activities. Remote-sensing satellites, now providing information about renewable and nonrenewable resources throughout the world, will help the understanding of residential development patterns, an area vital to both the public and private sectors.

In the life sciences, recombinant DNA and other genetic engineering, research on new vaccines and drugs, and improvements in agriculture, so that plants will be able to fix nitrogen from the air and withstand heat, drought, and saline conditions will continue to be important efforts in the Foundation's programs.

UNIVERSITY OF UTAH RESEARCH

I am aware that we are supporting some excellent research at the University of Utah into the development of polyurethane blood vessels. This is a critical area. NSF is proud that its programs are supporting such essential research.

In the information sciences, NSF is continuing to support research into better ways of storing and retrieving the immense amounts of information needed to assess, compare, and manage risks of developing regulations; for evaluating the costs and benefits of alternative regulatory strategies; and for judging alternate products or processes, such as are found in the energy technologies.

The Foundation also has played a lead role in developing activities which integrate the cognitive and behavorial sciences with those of the behavioral sciences to develop better training methods for military personnel and for improved science literacy in this country. These are some of the areas we consider to be important and best expressed in the budget we are presenting to you.

NATIONAL COMMISSION

The Foundation recently announced the establishment of a National Science Board commission to address the problems of precollege education in science, mathematics, and technology. We believe NSF has a responsibility and an opportunity to play a lead role in developing solutions to these problems. The Commission will develop an action plan that will call upon Federal, State and local governments, private scientific societies, and public citizens to help in identifying steps that can be taken to improve scientific and mathematics achievement in the public schools.

We are pleased, Mr. Chairman, to present NSF's budget request today and to have this opportunity to answer your questions.

[The statement follows:]

Statement of Dr. John B. Slaughter

I AM PLEASED TO APPEAR BEFORE THIS COMMITTEE TO DISCUSS THE NATIONAL SCIENCE FOUNDATION'S BUDGET REQUEST FOR FY 1983. THIS BUDGET REQUEST TOTALS $1,072.8 MILLION, AN INCREASE OF $76.6 MILLION OR 7.7 PERCENT ABOVE THE FY 1982 CURRENT PLAN. WE BELIEVE THAT THIS BUDGET PROPOSAL IS FISCALLY SOUND, WELL BALANCED, AND CONSISTENT WITH THE OBJECTIVES OF THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM, AND WOULD MAXIMIZE THE BENEFITS FROM THE NATION'S INVESTMENT IN THE SUPPORT OF FUNDAMENTAL RESEARCH.

IN FORMULATING OUR PROGRAM AND BUDGET PRIORITIES FOR FY 1983, SEVERAL IMPORTANT CRITERIA WERE USED. THESE INCLUDED: THE SCIENTIFIC EXCELLENCE AND PROMISE OF THE ACTIVITY TO BE SUPPORTED; MAINTENANCE OF A BROAD BASE OF SUPPORT ACROSS A WIDE VARIETY OF SCIENCE AND ENGINEERING DISCIPLINES; THE POTENTIAL FOR THE ACTIVITY TO CONTRIBUTE TO IMPORTANT NATIONAL ECONOMIC AND PRODUCTIVITY GOALS; AND THE ABILITY OF THE ACTIVITY TO TAKE FULL ADVANTAGE OF HIGH LEVERAGE SCIENCE OPPORTUNITIES AND CHALLENGES.

LET ME NOW MENTION SOME OF THE HIGHLIGHTS OF OUR FY 1983 BUDGET PROPOSAL.

o EMPHASIS IS GIVEN TO THE PHYSICAL SCIENCES AND ENGINEERING, WITH SPECIAL ATTENTION TO COMPUTER RESEARCH, EARTH SCIENCES, AND ELECTRICAL AND COMPUTER ENGINEERING.

o SUPPORT FOR THE SOCIAL AND BEHAVIORAL SCIENCES IS SUBSTANTIALLY INCREASED ABOVE THE AMOUNT PROPOSED FOR FY 1982 IN THE REVISED BUDGET REQUEST SUBMITTED TO CONGRESS IN MARCH 1981.

o INSTRUMENTATION AND EQUIPMENT SUPPORT FOR THE CONDUCT OF FOREFRONT RESEARCH ACROSS ALL THE SCIENCE DISCIPLINES TOTALS $95.3 MILLION, AN INCREASE OF 11.5 PERCENT ABOVE THE FY 1982 CURRENT PLAN ESTIMATE.

- Programs to enhance the participation of minority and women scientists and engineers in research careers are significantly expanded, compared to the FY 1982 level.

- The Ocean Margin Drilling program has been discontinued, but funds are included to continue the ongoing *Challenger* drilling program at this time. However, studies are underway that will lead to a decision by the Administration as to whether to move ahead in FY 1983 with an advanced ocean drilling program and a modification of *Explorer* for ocean drilling.

- Support is maintained for new and continuing graduate fellowships.

- The National Science Board Commission on Pre-college Education in Mathematics, Science, and Technology has been established to examine the problems facing pre-college science and mathematics education and to recommend national strategies for addressing them.

- The FY 1983 budget for the Antarctic program has been augmented by $13.4 million transferred from the U.S. Coast Guard budget to cover the cost of icebreakers used in the program. Exclusive of this transfer, this program is increased by 10.6 percent over the FY 1982 level. This is in keeping with a recent affirmation by the President that the NSF continue to be the focal point for managing and budgeting the U.S. Antarctic program, and that this responsibility not be assumed at the expense of other Foundation programs.

- Cooperative research programs with technologically advanced Western European countries and with Latin America are strengthened.

- Increased support is provided for research projects involving working cooperation between university and industrial scientists and engineers.

WITH THIS GENERAL BACKGROUND, LET ME NOW TURN TO SOME OF THE SPECIFICS OF OUR BUDGET REQUEST WITHIN THE VARIOUS BUDGET CATEGORIES.

MATHEMATICAL AND PHYSICAL SCIENCES

THE AMOUNT REQUESTED FOR THE MATHEMATICAL AND PHYSICAL SCIENCES (MPS) ACTIVITY IS $298.7 MILLION, AN INCREASE OF $25.8 MILLION OR 9.5 PERCENT ABOVE THE FY 1982 CURRENT PLAN. THIS REPRESENTS SOME REAL GROWTH IN THESE AREAS. STRONG SUPPORT IS PROVIDED ACROSS THE FULL SPECTRUM OF MPS DISCIPLINES, WITH A SPECIAL CONTINUING THRUST IN EXPERIMENTAL COMPUTER RESEARCH. DEVELOPING AN ADEQUATE LEVEL OF EXPERIMENTAL COMPUTER RESEARCH AT THE NATION'S COLLEGES AND UNIVERSITIES THROUGH THE SUPPORT OF MODERN FACILITIES HAS BEEN IDENTIFIED AS AN ITEM OF HIGHEST PRIORITY FOR THE PAST SEVERAL YEARS.

SUPPORT IS INCLUDED FOR THE CONSTRUCTION OF A COOLER RING AT THE INDIANA UNIVERSITY CYCLOTRON FACILITY AND FOR DETECTOR AND OTHER IMPROVEMENTS AT THE CORNELL ELECTRON STORAGE RING. RESPONSIBILITY FOR CONSTRUCTION OF THE PHASE II MICHIGAN STATE UNIVERSITY HEAVY ION ACCELERATOR WILL BE TRANSFERRED FROM THE DEPARTMENT OF ENERGY TO NSF WITH A CORRESPONDING FUNDING TRANSFER OF $5.8 MILLION. ALSO, RESPONSIBILITY FOR FUNDING THE STANFORD SYNCHROTRON RADIATION LABORATORY WILL BE TRANSFERRED FROM NSF TO THE DEPARTMENT OF ENERGY, INVOLVING A FUNDING SHIFT OF $5.5 MILLION. THESE STEPS WILL CONSOLIDATE RESPONSIBILITY FOR THESE FACILITIES IN THE MOST APPROPRIATE AGENCIES.

ENGINEERING

THE FOUNDATION IS CONTINUING TO PLACE A HIGH PRIORITY ON SUPPORT OF FUNDAMENTAL RESEARCH IN ENGINEERING. SUPPORT FOR THIS ACTIVITY TOTALS $99.7 MILLION, AN INCREASE OF $8.9 MILLION OR 9.8 PERCENT ABOVE THE FY 1982 CURRENT PLAN OF $90.8 MILLION (EXCLUSIVE OF A $1.2 MILLION TRANSFER FROM NSF TO THE U.S. GEOLOGICAL SURVEY FOR THE STRONG GROUND MOTION ARRAY PROJECT). WITHIN ENGINEERING, SPECIAL EMPHASIS WILL BE GIVEN TO MECHANICAL ENGINEERING AND APPLIED MECHANICS, WHICH INCREASES BY $2.3 MILLION OR 13.7 PERCENT AND TO ELECTRICAL, COMPUTER AND SYSTEMS

ENGINEERING, WHICH INCREASES BY $2.8 MILLION OR 11.1 PERCENT OVER THE FY 1982 CURRENT PLAN. RESEARCH EFFORTS IN THESE AREAS HAVE GREAT POTENTIAL FOR ADVANCING FUNDAMENTAL UNDERSTANDING AND FOR SIGNIFICANTLY ADDING TO THE KNOWLEDGE BASE IN FIELDS SUCH AS ROBOTICS, AUTOMATED MACHINE PROCESSES, INTELLIGENT ELECTRONIC SYSTEMS, AND INTEGRATED OPTICS.

BIOLOGICAL, BEHAVIORAL, AND SOCIAL SCIENCES

SUPPORT FOR THE BIOLOGICAL, BEHAVIORAL, AND SOCIAL SCIENCES ACTIVITY TOTALS $186.7 MILLION, AN INCREASE OF $10.7 MILLION OR 6.1 PERCENT ABOVE THE FY 1982 CURRENT PLAN. THE BIOLOGICAL SCIENCES ARE INCREASED BY 7.1 PERCENT FROM THE FY 1982 LEVEL TO A TOTAL OF $85.2 MILLION.

SINCE MY LAST APPEARANCE BEFORE THIS COMMITTEE, AN INTENSIVE REVIEW OF THE BEHAVIORAL AND SOCIAL SCIENCES HAS BEEN COMPLETED BY THE NATIONAL SCIENCE BOARD. THE FINDINGS OF THIS REVIEW HAVE HELPED SHAPE OUR FY 1982 CURRENT PLAN AND OUR FY 1983 REQUEST FOR THESE FIELDS. THE BOARD, AFTER COMPLETING ITS STUDY, REAFFIRMED THAT THESE FIELDS ARE AN IMPORTANT PART OF THE SCIENTIFIC ENTERPRISE AND THAT NSF HAS A DISTINCTIVE ROLE TO PLAY IN THEIR SUPPORT. PRIORITY WAS SET ON RESEARCH THAT ENHANCES THE OBJECTIVITY OF THE SOCIAL AND BEHAVIORAL SCIENCES, IMPROVES THE QUALITY OF THE DATA COLLECTED, AND PROVIDES CRITICAL ANALYSIS AND INTERPRETATION OF THE PHENOMENA OBSERVED.

THE REQUEST FOR THE BEHAVIORAL, SOCIAL AND ECONOMIC SCIENCES IS $32.3 MILLION FOR FY 1982--AN INCREASE OF 53 PERCENT OVER THE AMENDED MARCH REQUEST--AND $33.1 MILLION FOR FY 1983.

ASTRONOMICAL, ATMOSPHERIC, EARTH AND OCEAN SCIENCES

THE FY 1983 BUDGET REQUEST FOR THE ASTRONOMICAL, ATMOSPHERIC, EARTH AND OCEAN SCIENCES ACTIVITY IS $259.7 MILLION, AN INCREASE OF $19.7 MILLION OR 8.2 PERCENT ABOVE THE FY 1982 CURRENT PLAN.

BECAUSE OF THE SCIENTIFIC AND ECONOMIC SIGNIFICANCE OF RESEARCH ON THE STRUCTURE OF CONTINENTS, PRIORITY EMPHASIS IS CONTINUED ON SUPPORT

FOR THE EARTH SCIENCES, WHICH INCREASES BY $5.2 MILLION, OR 17.8 PERCENT, OVER THE FY 1982 CURRENT PLAN. WITHIN THE ASTRONOMICAL SCIENCES, BY CLOSING SOME SMALLER FACILITIES, SUCH AS THE SIXTEEN-INCH TELESCOPE AT KITT PEAK, NSF WILL BE ABLE TO KEEP ALL OF ITS MAJOR INSTRUMENTS AND FACILITIES IN OPERATION DURING 1983. ANOTHER DIFFICULT DECISION HAS BEEN MADE IN THE OCEAN SCIENCES, WHERE WE WILL CONTINUE TO UPGRADE SHIPS AND SHIP EQUIPMENT AT SOME EXPENSE TO THE SEA TIME FOR SCIENTISTS.

SCIENTIFIC, TECHNOLOGICAL, AND INTERNATIONAL AFFAIRS

IN FY 1982, A NEW SUBACTIVITY, COORDINATED AGENCY-WIDE RESEARCH ACTIVITY (CARA), WAS BUDGETED UNDER THE SCIENTIFIC, TECHNOLOGICAL, AND INTERNATIONAL AFFAIRS (STIA) ACTIVITY. MOST OF THE PROGRAM ELEMENTS INCLUDED IN CARA WERE FORMERLY DISPLAYED UNDER CROSS-DIRECTORATE PROGRAMS, WHICH WAS DISCONTINUED AS A SEPARATE ACTIVITY IN FY 1982.

EXCLUSIVE OF CARA, THE FY 1983 BUDGET REQUEST FOR THE STIA ACTIVITY IS $32.7 MILLION, AN INCREASE OF $1.2 MILLION OR 3.8 PERCENT ABOVE THE FY 1982 CURRENT PLAN OF $31.5 MILLION. SUPPORT FOR U.S. SCIENTISTS PARTICIPATING IN BILATERAL, INTERNATIONAL SCIENTIFIC ACTIVITIES IN WESTERN EUROPE AND LATIN AMERICA IS INCREASED. FUNDING FOR RESEARCH BY SMALL, HIGH TECHNOLOGY FIRMS IS INCREASED BY 10 PERCENT OVER FY 1982. AN ADDITIONAL INDUSTRY/UNIVERSITY COOPERATIVE RESEARCH CENTER WILL BE ESTABLISHED, AND PLANNING GRANTS FOR SEVERAL NEW CENTERS WILL BE AWARDED.

THE FY 1983 BUDGET REQUEST FOR THE CARA SUBACTIVITY IS $11.3 MILLION, AN INCREASE OF $2.5 MILLION OR 28.4 PERCENT ABOVE THE FY 1982 PLAN OF $8.8 MILLION. THIS AMOUNT PROVIDES FOR A DOUBLING OF THE VISITING PROFESSORSHIPS FOR WOMEN PROGRAM FROM $0.5 MILLION TO $1.0 MILLION. IT ALSO SUPPORTS AN EXPANSION OF THE RESEARCH IMPROVEMENT IN MINORITY INSTITUTIONS PROGRAM FROM $0.5 MILLION TO $2.0 MILLION. THIS PROGRAM WAS INITIATED IN FY 1982 IN RESPONSE TO THE PRESIDENT'S EXECUTIVE ORDER 12230. THE MINORITY RESEARCH INITIATION PROGRAM IS INCREASED FROM $1.7 MILLION IN FY 1982 TO $2.5 MILLION IN FY 1983.

PROGRAM DEVELOPMENT AND MANAGEMENT

THE PROGRAM DEVELOPMENT AND MANAGEMENT (PD&M) ACTIVITY PROVIDES RESOURCES FOR THE EFFECTIVE MANAGEMENT OF NSF.

THE FY 1983 BUDGET REQUEST FOR THE PD&M ACTIVITY IS $63.1 MILLION, WHICH REPRESENTS A DECREASE OF $0.4 MILLION FROM THE FY 1982 CURRENT PLAN OF $63.5 MILLION. THE NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES FOR THE FOUNDATION IS REDUCED FROM 1,301 IN FY 1982 TO 1,238 IN THE FY 1983 REQUEST, A DECREASE OF 5.0 PERCENT.

WITHIN THE AMOUNT REQUESTED FOR FY 1983, PERSONNEL COMPENSATION AND BENEFITS ARE FUNDED AT $44.6 MILLION, A DECREASE OF $0.6 MILLION OR 1.3 PERCENT BELOW THE FY 1982 AMOUNT; AND TRAVEL FOR STAFF, PROPOSAL REVIEWERS, PANELISTS AND ADVISERS IS DECREASED BY $0.25 MILLION OR 8 PERCENT BELOW THE FY 1982 AMOUNT.

SCIENCE AND ENGINEERING EDUCATION

AS I MENTIONED EARLIER, THE ESTABLISHMENT OF THE NATIONAL SCIENCE BOARD (NSB) COMMISSION ON PRE-COLLEGE EDUCATION IN MATHEMATICS, SCIENCE AND TECHNOLOGY IS AN IMPORTANT ELEMENT IN THE FOUNDATION'S ACTIVITIES. I WOULD LIKE TO REEMPHASIZE SEVERAL POINTS. FIRST, THERE IS NO QUESTION THAT SCIENCE EDUCATION AT THE ELEMENTARY AND SECONDARY LEVELS IS FACING SEVERE PROBLEMS, INCLUDING DECLINING NUMBERS OF STUDENT PARTICIPANTS IN SCIENCE, DECLINING ACHIEVEMENT, LACK OF ADEQUATE REWARDS FOR TEACHERS OF MATHEMATICS AND SCIENCE, INADEQUATE NUMBERS AND PREPARATION OF SCIENCE AND MATHEMATICS TEACHERS, AND ARCHAIC TEACHING EQUIPMENT.

DESPITE THE RECOGNITION THAT PROBLEMS EXIST, THERE IS DISAGREEMENT AS TO WHAT THE SOLUTIONS SHOULD BE. MOREOVER, PRECOLLEGE EDUCATION IS FUNDAMENTALLY A RESPONSIBILITY OF STATE AND LOCAL GOVERNMENTS. UNDER THESE CONDITIONS, THE WISEST COURSE FOR THE FOUNDATION IS TO PLAY A CATALYTIC ROLE; TO HELP IDENTIFY CRITICAL NEEDS; TO DEFINE AND PROVIDE INFORMATION ON THEM; AND TO ENCOURAGE STATE AND LOCAL GOVERNMENTS, SCIENTIFIC AND PROFESSIONAL ORGANIZATIONS, PRIVATE INDUSTRY, AND OTHER

FEDERAL AGENCIES TO MAKE APPROPRIATE CONTRIBUTIONS TO RESOLVING THEM. THE PURPOSE OF THE NSB COMMISSION IS TO FORMULATE STRATEGIES AND AN ACTION AGENDA.

FOR FY 1983, THE FOUNDATION IS MAINTAINING ITS SUPPORT FOR NEW AND CONTINUING FELLOWSHIPS IN SCIENCE AND ENGINEERING. THE TRAINING PROVIDED THROUGH THESE FELLOWSHIPS IS IMMEDIATELY AND DIRECTLY RELATED TO THE NSF RESEARCH MISSION. THE FY 1983 REQUEST FOR SCIENCE AND ENGINEERING EDUCATION IS $15 MILLION FOR GRADUATE RESEARCH FELLOWSHIPS, INCLUDING $1.5 MILLION FOR MINORITY FELLOWSHIPS.

CONCLUSION

MR. CHAIRMAN, OVERALL THE FOUNDATION'S FY 1983 BUDGET REQUEST CONTINUES A COMMITMENT TO HIGH QUALITY SCIENTIFIC AND ENGINEERING RESEARCH, PROVIDES SUPPORT ACROSS ALL DISCIPLINES, AND ALLOWS FOR REAL GROWTH IN SOME EXCITING AND PROMISING AREAS CRUCIAL TO THE NATION'S FUTURE. MANY OF THE BRIGHTEST GRADUATE STUDENTS IN SCIENCE AND ENGINEERING WILL RECEIVE SUPPORT UNDER FELLOWSHIPS OR RESEARCH GRANTS. MAJOR SPECIAL RESEARCH FACILITIES, INCLUDING THE OCEANOGRAPHIC FLEET AND THE NATIONAL RESEARCH CENTERS, WILL CONTINUE TO BE USED BY SCIENTISTS SEEKING NEW FUNDAMENTAL KNOWLEDGE. RESEARCH IN THE ANTARCTIC WILL BE CONTINUED, AND WE WILL MAINTAIN IMPORTANT INTERNATIONAL COOPERATIVE RESEARCH EFFORTS. INNOVATIVE EFFORTS TO ENCOURAGE RESEARCH COOPERATION BETWEEN INDUSTRY AND THE UNIVERSITIES WILL BE MAINTAINED. VERY IMPORTANTLY, WE WILL EXPAND OUR EFFORTS TO ENCOURAGE RESEARCH CONTRIBUTIONS BY TALENTED ETHNIC MINORITY AND WOMEN SCIENTISTS AND ENGINEERS.

MANY DIFFICULT DECISIONS HAVE BEEN FACED IN CONSTRUCTING THE FY 1983 BUDGET. I BELIEVE THAT A STRONG AND WELL BALANCED PLAN HAS EMERGED THAT WILL RESULT IN SIGNIFICANT SCIENTIFIC AND ENGINEERING PROGRESS AND CONTRIBUTE GREATLY TO THE NATION'S WELL BEING. I URGE YOUR SUPPORT OF THESE VERY IMPORTANT PROGRAMS.

SPECIAL EFFORTS IN BASIC RESEARCH

Senator GARN. Thank you, very much, Dr. Slaughter.

On January 26, NSF transmitted its second 5-year outlook on S. & T. One of the conclusions of that report was that:

> The United States is in danger of losing its lead in several key defense-related industries . . .

You alluded to that in your opening remarks——

> Including electro-optical sensors, guidance and navigation systems, hydroacoustics, optic and propulsion devices.

What special efforts is NSF devoting to basic research in these areas?

Dr. SLAUGHTER. The National Science Board, as a part of its responsibility for developing priorities for the National Science Foundation's budget, urged NSF to emphasize research in the engineering and physical sciences. All of the areas that you just mentioned fall into those research disciplines.

In carrying out the Board's guidelines, we decided to place a great deal of emphasis on the support of computer research, microelectronics, and electronics systems. These address problems like electro-optics, problems like guidance and control. The fiscal year 1983 budget requests for those areas increases which are larger than in other parts of the Foundation's program.

We believe that the research NSF is supporting in those areas does address the concerns contained in the 5-year outlook and that NSF is providing an appropriate thrust to prevent loss of the U.S. lead.

AVERAGE COST OF GRANTS

Senator GARN. As you note in your statement, the Foundation's fiscal year 1983 request represents an overall increase of 7.7 percent over fiscal year 1982. At an annual inflation rate of 6.5 percent, this represents an overall real growth of 1.2 percent. While your budget shows this real growth, the actual number of grants shows a small decline.

In this regard, I note that the average cost of a grant is expected to increase from $63,209 in 1982 to $69,744 in 1983, for an increase of 10.3 percent. Why is the cost of an average grant increasing so much faster than the expected rate of inflation?

Dr. SLAUGHTER. The Foundation continues to feel strongly that it has a major responsibility to address the deteriorating instrumentation in the research universities. Instrumentation in some of the disciplines now constitutes a larger share of the grant budget. Part of the increase results from the needs for instrumentation.

It also reflects a difference in the kind of research being supported. Many projects are large-scale experiments that require larger investments in systems, personnel, equipment, and facilities.

Dr. BRANSCOMB. May I supplement that——

Senator GARN. Yes; you may.

Dr. BRANSCOMB [continuing]. The Board feels keenly that if U.S. science is to remain the best, it must be funded to maximize its productivity and effectiveness and, therefore, maximize the value of the public investment in science. That is a more important consideration than is the total number of scientists who can be allowed to participate. In several areas the Board deliberately decided to decrease somewhat the number of grants in order to allocate the funds in the most effective pattern of investment.

DIFFERENCES IN GRANT COSTS

Senator GARN. Thank you.

In some areas such as social and economic sciences, the costs have decreased. In some areas, such as chemical and process engineering, increases are less than the assumed rate of inflation. In other cases, such as computer research, the costs increased by about 16 percent.

How do you account for these differences?

Dr. SLAUGHTER. The answer is related to your earlier question. The areas where the largest increases are incurred are the areas where the larger investments in major facilities and instrumentation are required. But certainly in the social and economic sciences, a major investment in instrumentation may not be needed to conduct the research. The fiscal year 1983 budget reflects a combination of the priority decisions made by the Board and the Foundation and the costs required to support the front-line research needed for continued development in critical areas.

Dr. BRANSCOMB. In computer science, specifically, there is a deliberate shift from theoretical work toward experimental research work; in the Board's view, that is where the most practical progress can be made.

NEW MODES OF RESEARCH

Senator GARN. In October, Dr. Frank Press, President of the National Academy of Sciences, stated:

> All sectors of the scientific community must be prepared to set aside the shibboleths of the past and, perhaps, propose new modes of research just as effective, yet less costly.

How are you responding to that challenge?

Dr. SLAUGHTER. We are initiating several cooperative arrangements that are directly responsive to Dr. Press' statement and also responsive to the Board's view that the Foundation should become more of a catalyst with impact on science and technology. Over the past several years, NSF has developed strong and enduring relationships with several industrial groups, particularly in chemicals, and now in microelectronics, that provide opportunities for leveraging National Science Foundation funds by attracting more funding from industry.

We are initiating a series of talks with the corporate foundations to discuss ways in which we might identify synergistic opportunities for using NSF funding in areas of mutual interest. These activities, we believe, are the best ways for NSF to identify new modes of partnership and support for science in meeting the needs of the country.

Senator GARN. Last week you provided us with a table showing the number of awards for 1979 through 1983 by program and activity. At this point, I would like to include that chart in the record.

[The information follows:]

NATIONAL SCIENCE FOUNDATION

SUMMARY OF AWARDS BY ACTIVITY - FY 1979, FY 1980, FY 1981, FY 1982, FY 1983

NUMBER OF AWARDS

01/25/82

Program Activity	Actual FY 1979	Actual FY 1980	Actual FY 1981	Estimate FY 1982	Estimate FY 1983
Mathematical & Physical Sciences..	3,112	3,247	3,306	3,167	3,146
Engineering/EAS............... 1/	1,684	1,251	1,483	1,489	1,520
Biological, Behavioral and Social Sciences..................	3,272	3,623	3,529	3,174	3,085
Astronomical, Atmospheric, Earth, and Ocean Sciences..............	1,975	1,859	1,911	1,814	1,821
Ocean Drilling Programs...........	0	0	0	0	0
U.S. Antarctic Program............	140	126	148	123	148
Scientific, Technological, and International Affairs....... 2/	758	990	1,063	756	823
Minority Institutions Science Improvement Program......... 3/			* (41)	* (37)	24
Cross-Directorate Programs........	126	237	0	0	0
Science and Engineering Education.	3,312	2,902	2,950	1,508	1,390
Special Foreign Currency Program..	161	220	164	340	130
TOTAL, NSF..............	14,540	14,455	14,554	12,371	12,087

* Non-Add; for comparison purposes only.

1/ FY 1979 figures are for Engineering and Applied Sciences (EAS)—prior to reorganization and redistribution of Applied Science activities among other program activities.
2/ STIA: FY 1981, FY 1982, and FY 1983 include CARA; FY 1979 and FY 1980 do not.
3/ See footnotes 12 and 17 regarding MISIP.

Sources: NSF Budget to the Congress, FY 1981; FY 1982 Revised, and FY 1983 (Quantitative Data Tables).

NATIONAL SCIENCE FOUNDATION

SUMMARY OF AWARDS BY SUBACTIVITY, ETC. - FY 1979 FY 1980, FY 1981, FY 1982, FY 1983

NUMBER OF AWARDS

01/25/82

Program Activity, Subactivity, etc.	Actual FY 1979	Actual FY 1980	Actual FY 1981	Estimate FY 1982	Estimate FY 1983
Mathematical & Physical Sciences:					
Mathematical Sciences...........	885	911	972	906	900
Computer Research...............	263	265	266	246	241
Physics.........................	349	408	427	410	400
Chemistry.......................	905	886	875	875	875
Materials Research..............	710	777	766	730	730
Subtotal, MPS................	3,112	3,247	3,306	3,167	3,146
Engineering (Formerly in EAS):					
Elect, Computer & Systems Engrg.	340	349	465	474	484
Chemical and Process Engineering	277	316	367	385	403
Civil and Environmental Engrg...	132	356	385	370	360
Mechanical Engrg. & Applied Mech	194	230	266	260	273
Interdisciplinary Research......	xxx	xxx			
Subtotal, ENG................	943	1,251	1,483	1,489	1,520
Applied Research................	153	4/			
Problem-Focused Research........	432	5/			
Intergovernmental Programs......	75	6/			
Small Bus. Innov. & Ind. Tech...	81	7/			
Subtotal, ENG/EAS............	1,684	1,251	1,483	1,489	1,520
Biological,Behavioral & Social Sci					
Physiol,Cellular & Molecular Bio	1,344	1,487	1,484	1,423	1,335
Environmental Biology...........	685	717	753	667	672
Behavioral & Neural Sciences....	783	842	744	636	620
Social & Economic Sciences......	460	518	489	390	400
Information Science & Technology	8/	59	59	58	58
Subtotal, BBS................	3,272	3,623	3,529	3,174	3,085
Astronomical, Atmospheric, Earth, and Ocean Sciences:					
Astronomical Sciences...........	248	244	225	205	200
Atmospheric Sciences............	475	433	486	477	492
Earth Sciences..................	503	491	516	520	525
Ocean Sciences:					
Ocean Science Research Support	362	522	533	475	465
Coord Ocean Res & Exploration.	60	xxx	xxx	xxx	xxx
Oceanographic Facil. & Support	240	102	85	70	67
Subtotal, Ocean Sciences.....	662	624	618	545	532
Arctic Research Program.........	87	67	66	67	72
Subtotal, AAEO...............	1,975	1,859	1,911	1,814	1,821
Ocean Drilling Programs..........	xxx	xxx	xxx	xxx	xxx
U.S. Antarctic Program:					
U.S. Antarctic Research Program.	140	126	148	123	148
Operations Support..............	xxx	xxx	xxx	xxx	xxx
Subtotal, USAP...............	140	126	148	123	148

4/ Redistributed to MPS, ENG, BBS, and AAEO.
5/ Redistributed to ENG, BBS, and CDP.
6/ Transferred to STIA.
7/ Transferred to STIA and ENG.
8/ Under STIA in FY 1979.

NATIONAL SCIENCE FOUNDATION

SUMMARY OF AWARDS BY SUBACTIVITY, ETC. - FY 1979 FY 1980, FY 1981, FY 1982, FY 1983

NUMBER OF AWARDS

01/21/82

Program Activity Subactivity, etc.	Actual FY 1979	Actual FY 1980	Actual FY 1981	Estimate FY 1982	Estimate FY 1983
Scientific, Technological and International Affairs:					
Ind. Science & Tech. Innovation.	9/	174	277	210	236
Internatl. Coop. Scientific Act.	529	454	282	320	320
Intergovtl & Public Service S&T.	9/	203	47	10	10
Policy Research and Analysis....	137	80	104	101	113
Science Resources Studies.......	52	79	46	45	50
Coordinated Agency-Wide Research Activities...........	xxx	xxx	10/ 307	70	94
Information Science & Technology	40	11/			
Subtotal, STIA..............	758	990	1,063	756	823
Minority Institutions Science Improvement Program............	xxx	xxx	12/ (41)	(37)	24
Cross-Directorate Programs:					
Res. Facil. & Instrumentation:					
2-Year & 4-Year College Res. Instrumentation.............	44	189	13/		
Regional Instrumentation Facil	11	10	13/		
Subtot, Res. Facil & Inst....	55	199			
Cross-Directorate Internatl Prog	44	14/			
Research Initiation and Improv:					
Visit'g Professorships, Women			15/		
Minority Research Initiation..		0	15/		
Research Improvement in Minority Institutions.......	9	19	15/		
Experimental Prog to Stimulate Competitive Research........	7	4	15/		
Postdoctoral Fellowships......	16/	16/	13/		
Subtot, Res. Init & Improvemt	16	23			
NSF Planning and Evaluation.....	11	15	15/		
Subtotal, Cross-Dir. Programs	126	237	0	0	0
Science and Engineering Education:					
Scientific Personnel Improvem't:					
Faculty Improvement...........	387	406	(Program Element Breakouts Not Available)		
Fellowships and Traineeships..	1,744	1,560			
Student-Oriented Programs.....	319	295			
Minorities, Women & Physically Handicapped in Science......	81	64			
Subtot, Sci. Pers.Improvement	2,531	2,325	2,342	1,450	1,390

9/ Included under EAS/ENG in FY 1979.
10/ Partial successor to Cross-Directorate Programs
11/ Transferred to BBS
12/ Transferred from Department of Education in FY 1983.
13/ Program discontinued.
14/ Transferred to STIA.
15/ Transferred to CARA.
16/ Included under Science Education.

PRIORITIES PROCESS

Senator Garn. The table shows an increased number of awards in engineering, social and economic sciences, atmospheric sciences, earth sciences, and several other areas.

There are offsetting decreases in areas such as physics, behavioral and neural sciences, and ocean sciences. What kind of a process did you go through to establish these priorities?

Dr. Branscomb. May I address this question?

Senator Garn. Certainly.

Dr. Branscomb. The National Science Board establishes the framework within the Foundation to implement those priorities.

The Board begins a process each year in December called the long-range planning exercise. We go through, in great detail, the opportunities in the various fields, working with the assistant directors and other Foundation officials and looking at the advice of the advisory committees and outside groups.

During the spring, the Board creates a set of priorities for what it feels to be the fields that need principal attention, both for the preservation of scientific opportunities and for the immediate value that progress in those fields could have to society, whether it be the economy or national security or other purposes. The priorities are then expressed in a set of guidelines which finally takes the form of the actual budget approved by the Board in August for submission to the Office of Management and Budget.

Last year, for example, as the Board provided the guidance in August for the fiscal year 1983 budget, it concluded that the engineering, mathematical, and physical sciences—particularly computer sciences—earth sciences, social and behavioral sciences, and science and engineering education activities deserved special attention, along with some capital facilities issues.

Translating that guidance into numbers of awards anticipated in the budget requires an additional step: The determination of whether there should be any shift in the size of the typical award. So the number of awards in various disciplines may increase, as you described, or may decrease. The results reflect both the priority assessment and, in some cases, the size of the award.

Physics, for example, is in NSF's category of priority fields, and yet the number of awards decreased slightly. The reason is there was a deliberate effort to keep the size of the awards to maintain the U.S. edge. In behavioral and social sciences, the awards are kept as lean as possible in order to cover the minimum in critical areas that are important to sustain and build on for the future. So the number of awards is a combination of priorities and size of an award.

OMB ROLE IN PRIORITIES

Senator Garn. What role did OMB have in setting your priorities?

Dr. Slaughter. The Office of Management and Budget negotiates with the NSF staff. As Dr. Branscomb said, we shaped the Board's broad directions after conversations and negotiations with OMB. The result is a combination of all of those discussions. Each participant played a significant role in the final shape of the budget before you.

Senator GARN. Did OMB give you more flexibility this year than they did last year?

Dr. SLAUGHTER. Yes, sir; they did.

Dr. BRANSCOMB. The Board appreciates its role under the law to recommend to the President the direction that the Foundation should pursue.

We realize that the President has the staff arm for making that decision. Clearly, we try to give our advice at the level of scientific priorities purely based on our best judgment and the best data we can gather. We appreciate that OMB provides the guidelines for how that target budget should be put together. The Board participates, as it should, in the give and take of that process, but most of that give and take responsibility lies with the Director who works directly with OMB.

GAO REPORT ON GRANT PROCEDURES

Senator GARN. I understand.

Sometimes I communicate with OMB with a club, and not as delicately as you have put it.

In September, GAO published a report on the grant award procedures at NIH and NSF. I would like your comments on some of the conclusions reached in that report.

When a scientist applies for a grant renewal at NSF, unlike NIH, he is not required to identify the objectives of his preceding grant or progress toward their accomplishment or to identify the publications from that grant.

Why don't you require that kind of information?

Dr. LANGENBERG. We do ask for that information, but in a more generalized and less specific way than the GAO might have envisioned.

We ask, routinely, from NSF peer reviewers an assessment of a proposal in these terms: The ideas contained in the proposal, the scientific promise which the proposed work may fulfill, and the proposer's past track record, with emphasis on the most recent work.

That most recent work, in the great majority of all cases, will have been funded by the National Science Foundation or by some combination of the Foundation and other agencies. So, indeed, we do ask for an evaluation of recent scientific progress. Where that progress is not demonstrably strong, the chances for further funding are substantially reduced.

NEW PROPOSALS

Senator GARN. For new project proposals, neither NSF nor NIH requires researchers to discuss the prior grant results or identify prior grant publications. Also, peer reviewers are not asked to evaluate scientific progress on the prior grant.

Why isn't a researcher's work on the prior grant considered as part of the formal grant approval process? I realize you just answered that you think you get it in a less direct way than GAO talks about, but why shouldn't it be a formal part of the grant approval process?

Dr. LANGENBERG. In partial response to the recommendations of that GAO report, we are now engaged in some revisions of NSF's brochure, "Grants for Scientific Research," that prescribes the content of proposals. It will call for somewhat more specific identification of previous work and the sources of support for that previous work. These changes ought to allow a somewhat more detailed assessment.

Senator GARN. Fifty-five percent of reviewers interviewed by GAO felt that this type of information would be useful. I certainly think it would be in your best interest to see that it is made available.

I am sure you understand what I am driving at. I am one who is very supportive of NSF. I think that, overall, it has done a tremendous job over the years in helping science education and basic research.

We have all heard of the stories over the years and the projects that seem to be wasteful and maybe in our unscientific minds, we do not understand. But to the public and the taxpayer and some of my colleagues, it is a little difficult to explain why additional grants have been made when somebody has been doing research on something and hasn't produced anything.

Certainly, we understand that probably a majority of research produces nothing, but it builds on future research and development. However, it would seem to me that this type of peer review and analysis of past work would improve your situation as far as future funding and alleviate a lot of the criticism that comes from the Congress when they find a project that does not seem to make much sense. I think it is in your own self-interest that you monitor the grant award procedures as carefully as you can.

Dr. Branscomb, do you have any additional comments on this issue?

Dr. BRANSCOMB. Your comment is well taken. I would like to emphasize the importance of the grant officer in NSF having that information and taking it into account. It is not obvious to me that the peer reviewer is the one who should be asked to look at that individual's prior performance on specific grants. The peer reviewers really should look at the merits of the work and the investigator's qualifications which, of course, do include his previous track record. And certainly, the grant officer should know about any failure of the investigator to perform in an acceptable fashion on prior grants.

POST-PERFORMANCE EVALUATION

Senator GARN. What steps, if any, do you intend to take to monitor or evaluate scientific results from your grants beyond what you already explained?

Dr. LANGENBERG. Mr. Chairman, as you are aware, a committee in the National Academy of Sciences has just completed the first phase of a study, "The Quality of Research in Science: Methods for Post-Performance Evaluation in the National Science Foundation." We are in the process of determining how we will respond to that study.

I might just mention one of our conclusions. It would appear to be far more feasible, probably more valuable, to devise a system for evaluating programs of the Foundation by looking at the performance of all

NSF-funded projects over some period of time in a particular discipline or subdiscipline of science.

Let me add, there are several recommendations and suggestions in the Academy report. We will be pursuing them vigorously.

Dr. SLAUGHTER. I might add that one of the recommendations of the Academy study goes precisely to what you referred to earlier; that is, we require, throughout the Foundation, examination of investigators' past performance before renewing or supporting new proposals. We can cooperate with that recommendation throughout the research divisions, as Dr. Branscomb said.

INCREASING THE QUALITY OF FUNDED RESEARCH

Senator GARN. Last year I asked you to comment on the health of U.S. science and what could be done to assure the continued preeminence of America in the sciences. In your response you noted, and I quote, "We need to make sure that we continue to support the best science programs proposed by the scientists and researchers of this country."

With that same goal in mind, this committee over the last 2 years requested NSF to develop a coherent and effective system of post-research evaluation. In making this request, the committee recognized that the Federal investment in science is substantial and, while the benefits of scientific research are often obvious, better understanding of the value of particular research results is often needed to make sensible planning and budgetary decisions. Evaluating the results of NSF-funded research or post-performance evaluation could also provide the scientific community and NSF with a better understanding of how successful science is supported and performed.

NAS RECOMMENDATIONS

Two weeks ago, as Dr. Langenberg just mentioned, the National Academy of Sciences completed the review that we requested on post-performance evaluation. I would appreciate it if you would comment further on the conclusions of that study.

First, do you agree with the basic premise as expressed in the report:

> Basic science supported by public funds, whether performed in universities or elsewhere, should not be exempt from the oversight the Government imposes on other institutions. Neither science nor scientists can plead for special privileges on the basis that science is a unique endeavor?

Dr. SLAUGHTER. Yes; we agree wholeheartedly. We believe science must be responsible, as do all other segments of society, to oversight.

Your committee clearly indicated your interest in, and concern for, the improvement of capabilities for post-performance evaluations. The committee urged NSF to seek a third-party examination; the National Academy of Sciences study is the result.

We are continuing to evaluate the study results. The findings, however, are clear: The study finds that NSF does need to strengthen its post-performance evaluation.

The study recommendations, however, say that perhaps the best method is not looking at a small set of individual grants to determine the quality of the award decisions, but rather, assessing the impact of the National Science Foundation's support on disciplines within a field.

I think that conclusion is absolutely correct. NSF's stewardship can best be measured by examining the strength of a particular field as a result of the Foundation's activities and support in that field.

We can mention several; computer research, for example. Computer research in this country has benefited a great deal from the efforts begun by NSF decades ago. Genetic engineering research benefited largely from support of the National Science Foundation.

We can identify many such fields where the increase in knowledge and an understanding of the science has been directly attributable to support provided by NSF. We believe we should factor that impact into the post-performance evaluation rather than simply to ask whether an individual investigator achieved the results that he or she felt might be obtained from a project.

NATIONAL SCIENCE BOARD REVIEW

Dr. BRANSCOMB. Could I supplement that, Mr. Chairman?

Senator GARN. Yes.

Dr. BRANSCOMB. The large programs specifically approved by the National Science Board are numerous. As projects are moved forward for approval, the Board's programs committee examines them in great detail. The Board's requests very often deal with the prior performance of the institutions in that discipline.

In addition, the Board from time to time asks that the programs committee join with the NSF Director to look at a particular field of operation. And the Board looks at random samples of project work in that discipline, examining it from a general point of view to see whether the projects are well managed and vital.

That is not a comprehensive way to answer the question you raised, and the Board should not be auditing operations, but it does give the Board confidence that it has a way of judging the stewardship of funds in various segments of the Foundation's programs.

RENEWAL OF RESEARCH GRANTS

Senator GARN. The report also recommends that:

> In order to insure a systematic NSF post-performance evaluation of projects, we recommend that the NSF require throughout all its research divisions that the past performance under NSF support be reviewed explicitly in the course of evaluating proposals for renewal of research grants.

Do you agree with that conclusion?

Dr. SLAUGHTER. Yes, we do. We believe that it needs to be incorporated in the research programs.

Senator GARN. The reviewers conclude that:

> Postperformance evaluation could be used more effectively in improving decisions about the allocation of resources among fields and subfields of science. The potential for evaluations of this type at the program and division level has not yet been adequately realized.

They also felt that:

> Relevant information is available throughout NSF's research divisions. NSF should analyze why the information has not been better articulated and used.

Would you make any comments on those two recommendations or conclusions?

Dr. SLAUGHTER. As Dr. Langenberg said, we are still in the process of determining how best we can respond to the recommendations. I have discussed them with my staff. After these hearings, I hope I will have an opportunity to sit down with members of your staff, particularly Mr. Berger, to discuss how the report and the Foundation's response match the committee's charge to us a year ago. I want to make certain that we jointly understand the process that we can follow to make the Foundation more responsive in using postperformance evaluation to address the critical problems you raised. We have the tools to do so now; it is just a matter of working out the details.

NSF COMMENT REQUESTED

Senator GARN. The report identifies two purposes for postperformance evaluation which I also fully endorsed. These are: To improve NSF's judgments in supporting high-quality science and to provide a basis for demonstrating the quality of its stewardship of public funds. On the basis of the important role of post-performance evaluation can play in NSF grant management, I would like you to carefully study the National Academy's recommendations and report back to us on how you intend to implement those recommendations. If possible, I would like a written report by May 27.

Dr. LANGENBERG. I should mention another mechanism for program evaluation that the Foundation has had in place for several years. In this mechanism, external experts in a discipline come to NSF and spend several days, in effect, looking over a program officer's shoulder. They review specific proposals and all actions taken thereon subsequent to receipt of the proposals. These groups of experts typically look at dozens of proposals and dozens of actions, both declinations and awards. The system is designed to focus primarily on the behavior of the NSF program officers.

Do the program officers, in fact, exercise proper scientific judgment, synthesizing the results of the external peer review and arriving at recommendations for award decisions? This question underlines a remark that Doctor Branscomb made earlier: Within the Foundation, the program officers are expected to, and indeed do, exercise a great deal of scientific judgment based on their broad experience and knowledge of the field in arriving at recommendations for award decisions.

The system that I have described is aimed at seeing that program officers are exercising that responsibility properly. But in analyzing these specific actions over a period of several years in a given program, the external reviewers acquire an understanding of the directions a given program has taken. Consequently, these reviewers very often give us in their reports an effective post-performance evaluation. The postperformance evaluation, however, is not on individual projects but on a program and its operation for a couple of years. That is yet another mechanism to provide us a sense of how things are going at NSF.

REPORTING REQUIREMENTS

Senator GARN. Last year we discussed the importance of reducing unnecessary reporting requirements imposed on scientists and, therefore, increase their scientific productivity. At that time I asked you to review all of the relevant regulations and report back to us by July 1, 1981, as to how things could be improved. In your June 1 reponse you stated, and I quote:

> I wholeheartedly support the thrust of your question. Nevertheless, I would respectfully suggest that NSF may not be the most effective agency for addressing the problem.

In my September 22 letter to you, I asked you, among other things, to take another look at the problem. In your reply to this letter you list 12 actions you have taken to reduce the administrative burden on scientists. Could you describe what further efforts NSF has taken? Of course, my thrust here is that you have highly trained and educated scientists. I think their most productive use is in scientific work and not filling out forms for the Government. It is a problem that I think would increase your productivity if you have some suggestions of how we can reduce this paperwork burden.

MASTER GRANT EXPERIMENT

Dr. LANGENBERG. I couldn't agree with you more. The Foundation has taken a number of significant initiatives to cut down the paperwork, reduce the redtape, and increase the time available to NSF-supported researchers who are doing good science. Perhaps the most salient is the master grant experiment which is now in what we call phase 2. We continue to be pleased with its results. The grantee institutions also appear to be pleased with the results, and indeed, we have had some small difficulty in carrying out the experiment in an orderly manner because a large number of new institutions not yet included have asked to be included.

If the experiment goes as well as I think it is now going, we may be able, in the near future, to extend its coverage to all NSF grantee institutions, at least in many Foundation programs.

There are significant reductions in the amount of paperwork and significant increases in flexibility, allowing the scientists themselves within their institutions to make local decisions. And all of this is being achieved without any reduction in accountability.

I also would like to mention that, as you know, the OMB cost principles—A-2—which determine the allowability of various costs, both direct and indirect in universities and other nonprofit institutions, have been the subject of a considerable amount of criticism.

OMB COST PRINCIPLES

In January, the Office of Management and Budget published proposed revisions in those cost principles. The revisions were aimed specifically at a controversial subject: Effort reporting by faculty and other grantee individuals. They also provide for allowability of interest on money borrowed to purchase capital equipment and provide facilities.

The Foundation took part in the negotiations that led to the proposed revisions. We have supported them in comments to the Office of Management and Budget. If OMB finds it possible to promulgate those revisions, they will go a long way toward solving some of the redtape problems experienced by some of the universities.

Senator GARN. Speaking of redtape and other objectional things, do you have any scientific suggestions for more gentle ways to inform Senators of what is going on instead of those loud buzzers and lights? [Laughter.]

I sometimes feel very much like Pavlov's dog when I start to salivate and the bells ring, you will know why. [Laughter.]

UNIVERSITY REQUIREMENTS

Your letter also notes that State and university requirements are as burdensome as Federal requirements. What role can NSF play in assisting States and universities in reducing these requirements?

Dr. LANGENBERG. I feel there really is no appropriate role for NSF or any other Federal agency in regulating the State and local institutional regulators. But we can take initiatives like the master grant experiment to demonstrate by doing that, it is indeed possible to get accountability and the required reporting and recordkeeping without reducing unduly the flexibility and freedom of action of the scientists in their laboratories.

NSF REPORTING ROLE

Senator GARN. Let me say at this point that I do think that NSF has a very key role to play in this whole area, despite the fact that your letter of last June said that NSF may not be the most effective agency for addressing the problem.

That may be technically true as far as actually reducing the administrative burden on scientists. However, I see no one better suited to judge and make recommendations of how this can be done. I would appreciate it if, by June 1, you could fill me in on how the experiment is going and provide a written report as to your future plans in this area. I do think it is critical, particularly when we are facing very austere budgets, that we utilize the brains of these scientists for more important things than filling out forms.

Dr. LANGENBERG. I would be most pleased to do so, Mr. Chairman.

Dr. BRANSCOMB. I would like to comment, if I may, from my perspective from an industrial background, involved only part time in the Foundation. While the Foundation can always improve, it has played a valuable role in helping other agencies find their paths through some of these morasses. That is because the Foundation looks broadly at the vitality of the research enterprise. NSF also is giving more attention to the necessity of sharing facilities and coordinating activities. So I would like to give the Foundation's operational management a gold star for playing a leadership role in this area.

NEW NSB MEMBER

I would like to recognize the most recent appointee to the National Science Board, Dr. Jay Vern Beck, a distinguished scientist at Brigham Young University.

Senator GARN. Once in a while the University of Utah graduates allow somebody from Brigham Young to participate in programs. [Laughter.]

I have to be careful because I represent the whole State, but you can't remove your own school biases. That is why I think the polyurethan blood vessel research is such a splendid activity at the University of Utah.

SUBMITTED QUESTIONS

Gentlemen, I have some additional questions, as well as questions from Senator Weicker, Senator Huddleston, and Senator Leahy, which I would like to submit to you for your response in the record. I thank you very much for your testimony today.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

NSF Instrumentation Program

Question: In your January 1981 budget, you requested $75 million for a new program entitled University Research Laboratories and Instrumentation. What was the original rationale of proposing this program?

Answer: Modern science is driven by instrumental quality; sophisticated apparatus permits measurements with previously impossible precision, and new techniques have created novel research areas with unprecedented opportunities. Research instrumentation and the facilities housing the apparatus have become increasingly complex and expensive and are beyond the financial capabilities of universities and the project support system.

Many existing strong and active research groups are currently forced to use worn-out, obsolete, or high-maintenance equipment that impairs their ability to carry out the fundamental research that this Nation has depended on for technological innovation, economic advance, and progress in health care. There has been no major investment in the "hardware" of science in this country over the past decade, thus contributing to the underutilization and erosion of science and engineering research capability. Other nations, such as Japan and Germany, have built their laboratory strength and have research facilities that exceed much of the U.S. best in quality. There is evidence that some of this Nation's best scientists have been drawn to other countries by the availability of superior research facilities. If this pattern is allowed to continue, the U.S. will be less able than its potential competitors to develop new high-technologies necessary for our well-being. It is, therefore, critical that university research instrumentation and facilities be modernized and upgraded in the science and engineering disciplines.

Question: The problem, of course, still exists.

Answer: Yes it does. Some argue that the university research instrumentation base has deteriorated even further in the eighteen months since that rationale was written.

Question: Do you have any plans to initiate such a program in FY 84?

Answer: No

Question: This year your budget includes $85.5 million for equipment and instrumentation needs. Your FY 83 budget contains $95.3 million for an increase of 11.5%. To want extent does this increasing emphasis on equipment and instrumentation funding through your grant process address the underlying problem?

Answer: These funds are an agency-wide compilation of equipment supported through the disciplinary project grant system. That includes items costing $300 or more.

Addressing the problem in this manner permits program managers and principal investigators to determine the most appropriate allocation of limited project budgets. These decisions will vary from discipline to discipline. The underlying problem will thus be addressed to the extent that those most familiar with the problem believe it necessary and appropriate to do so.

In addition the Foundation is initiating a variety of other activities, such as stimulating equipment donations by manufactures. Taken together these efforts will help arrest the decline in university research instrumentation.

Question: Will a heavier reliance on a master grant result in greater expenditure for equipment?

Answer: Probably not, although the master grant arrangement will facilitate the acquisition of equipment by providing greater lead time than would be otherwise available.

Question: What impact will DOD's new 5 year $150 million equipment program have on the equipment needs and on NSF's role in this area?

Answer: The DOD program will have an extensive positive impact on the university equipment base. This impact will, of course, be limited to those disciplines in which DOD is most interested. These include computer sciences, integrated circuit fabrication, semi-conductor materials evaluation and optics, lasers and millimeter wave instrumentation.

Question: What agreements have you reached with DOD relative to defining their responsibility and yours?

Answer: DOD participated fully in discussions held last summer by members of the Interagency Working Group on University Research Instrumentation. During those discussions agreement was reached on criteria and procedures for a possible government-wide program which included the DOD initiative currently being considered by the Congress. We are informed that DOD plans to follow those criteria and procedures to the extent appropriate and feasible. DOD will report their plans at the next meeting of the Interagency Working Group, currently scheduled for May 24, 1982.

Question: Could you comment on Senator Schmitt's proposal to establish a matching program for industry/Federal funding of equipment?

Answer: Many analysts and observers agree that the university research instrumentation problem will be solved only with strong private sector participation. Some initiatives have recently been announced. NSF and the Interagency Working Group are working on others, including increased contributions of equipment by manufacturers and discounts from retail price. Senator Schmitt's proposal could further this type of cooperation and contribute to resolving the instrumentation problem.

MINORITIES AND WOMEN

Question: You are requesting an increase of $2,506,107 or 28 percent in your Coordinated Agency-Wide Research Activities Program. In particular, you are requesting:

- A doubling of the Visiting Professorships for Women program from $0.5 million to $1.0 million.
- An expansion of the Research Improvement in Minority Institutions program from $0.5 million to $2.0 million.
- An increase of the Minority Research Initiation program from $1.7 million to $2.5 million.

How much was your request to OMB for these programs?

What role did Executive Order 12230 have in determining the program level for these activities?

Why are such large increases required in these programs at this time?

Answer: NSF requested and OMB approved these programs at the levels shown in the FY 1983 budget request.

Visiting Professorships for Women -- $1.0 million
Research Improvement in Minority Institutions -- $2.0 million
Minority Research Initiation -- $2.5 million

Executive Order 12230 played a determining role in reestablishing the Research Improvement in Minority Institutions program. This program was proposed at the initial FY 1982 budget request. However, because this level of funding was too low to support a viable funding program it was eliminated in line with the President's Budget Reform Plan of FY 1982. With the issuance of Executive Order 12230, the program was revised and reestablished at a viable level wherein the Foundation could make a significant impact on the capabilities of the eligible institutions.

The increases in these programs are large only when viewed in the context of previous budget levels. When viewed as an appropriate level of funding to enable the Foundation to make a significant impact, the requested funds are the minimal levels necessary for viable programs. These programs at the FY 1983 budget request level represent an effort by NSF and OMB to consolidate a wide range of special needs and to focus sufficient resources on significant programs which presently limit the participation of minorities and women in science and engineering careers.

FACULTY RECRUITING

Question: Please provide, for the record, the most recent data on the percent of faculty vacancies in various academic disciplines.

Answer: The most recent data are contained in tables from Recuritment and Retention of Full-Time Engineering Faculty, Fall 1980, Higher Education Panel Report Number 52, by Frank J. Atelsek and Irene L. Gomberg, American Council on Education, Washington, D.C., October 1981.

Table 1

Permanent Full-time Engineering Faculty Positions, Fall 1980:
All Institutions (N=244)*

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	649	15	26	4.0	10	1.5
Chemical	1,382	11	136	9.8	53	3.8
Civil	2,907	15	276	9.5	124	4.3
Computer science and computer engineering	914	9	146	16.0	75	8.2
Electrical	3,570	16	333	9.3	168	4.7
Industrial	1,007	10	135	13.4	54	5.4
Mechanical	3,121	15	275	8.8	135	4.3
Other engineering fields	2,658	20	257	9.7	101	3.8
Total positions	16,208	14	1,583	9.8	720	4.4

*Included in this survey were only institutions with at least one engineering program accredited by the Engineers' Council for Professional Development, 1979.

Table 2

Permanent Full-time Engineering Faculty Positions, Fall 1980: Top 50 Institutions*

Engineering Fields	Total Number of Positions	Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
		N	% of total	N	% of total
Aeronautical and astronautical	384	16	4.2	5	1.3
Chemical	680	51	7.5	23	3.4
Civil	1,279	93	7.3	39	3.0
Computer science and computer engineering	369	51	13.8	31	8.4
Electrical	1,443	116	8.0	55	3.8
Industrial	433	39	9.0	9	2.1
Mechanical	1,170	93	7.9	50	4.3
Other engineering fields	1,600	119	7.4	53	3.3
Total positions	7,356	578	7.9	264	3.6

*In level of engineering R & D expenditures, FY79

Table 3

Permanent Full-time Engineering Faculty Positions, Fall 1980:
Public Institutions (N=151)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% total	N	% of total
Aeronautical and astronautical	502	16	22	4.4	7	1.4
Chemical	1,008	11	100	9.9	37	3.7
Civil	2,219	18	211	9.5	83	3.7
Computer science and computer engineering	679	10	115	16.9	58	8.5
Electrical	2,480	19	255	10.3	131	5.3
Industrial	790	11	109	13.8	41	5.2
Mechanical	2,209	17	226	10.2	105	4.8
Other engineering fields	2,028	20	213	10.5	80	3.9
Total positions	11,915	16	1,251	10.5	542	4.5

Table 4

Permanent Full-time Engineering Faculty Positions. Fall 1980:
Private Institutions (N=93)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	147	15	5	3.4	2	1.4
Chemical	374	11	35	9.4	15	4.0
Civil	688	10	65	9.4	41	6.0
Computer science and computer engineering	234	7	31	13.2	18	7.7
Electrical	1,090	13	77	7.1	37	3.4
Industrial	217	7	25	11.5	13	6.0
Mechanical	912	12	48	5.3	31	3.4
Other engineering fields	629	21	44	7.0	21	3.3
Total positions	4,291	12	330	7.7	178	4.1

Table 5

Permanent Full-time Engineering Faculty Positions, Fall 1980:
Public Universities (N=86)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	367	15	20	5.4	7	1.9
Chemical	854	13	74	8.7	37	4.3
Civil	1,718	22	131	7.6	59	3.4
Computer science and computer engineering	436	12	68	15.6	44	10.1
Electrical	1,778	23	160	9.0	84	4.7
Industrial	593	14	68	11.5	24	4.0
Mechanical	1,642	21	142	8.6	71	4.3
Other engineering fields	1,611	25	153	9.4	70	4.3
Total positions	8,999	20	817	9.1	396	4.4

Table 6

Permanent Full-time Engineering Faculty Positions, Fall, 1980:
Private Universities (N=45)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	147	15	5	3.4	2	1.4
Chemical	338	11	35	10.4	15	4.4
Civil	522	15	43	8.2	27	5.2
Computer science and computer engineering	214	10	31	14.5	18	8.4
Electrical	769	20	66	8.6	30	3.9
Industrial	134	9	12	9.0	7	5.2
Mechanical	587	16	41	7.0	24	4.1
Other engineering fields	629	21	44	7.0	21	3.3
Total positions	3,341	15	278	8.3	144	4.3

Table 7

Permanent Full-time Engineering Faculty Positions, Fall 1980: Public Four-Year Colleges (N=65)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	135	20[a]	2	1.5	0	0
Chemical	154	5	26	16.9	0	0
Civil	501	10	80	16.0	24	4.8
Computer science and computer engineering	243	8	47	19.3	14	5.8
Electrical	702	13	95	13.5	47	6.7
Industrial	197	6	41	20.8	17	8.6
Mechanical	567	11	84	14.8	34	6.0
Other engineering fields	417	10	60	14.4	10	2.4
Total positions	2,916	10	434	14.9	146	5.0

[a] Distorted somewhat due to the inclusion of faculty from a U.S. Service School.

Table 8

Permanent Full-time Engineering Faculty Positions, Fall, 1980:
Private Four-Year Colleges (N=48)

Engineering Fields	Number of Positions		Positions Unfilled at Beginning of 1980 Fall Term		Positions Unfilled Since Beginning of 1979 Fall Term	
	Total	Avg. Per Dept.	N	% of total	N	% of total
Aeronautical and astronautical	0	0	0	0	0	0
Chemical	36	7	0	0	0	0
Civil	166	5	22	13.3	14	8.4
Computer science and computer engineering	20	2	0	0	0	0
Electrical	321	7	11	3.4	7	2.2
Industrial	83	6	13	15.7	6	7.2
Mechanical	325	8	7	2.2	7	2.2
Other engineering fields	0	0	0	0	0	0
Total positions	951	6	53	5.6	34	3.6

NEW ENGINEERING FACULTY RESEARCH INCENTIVE PROGRAM

Question: Your FY 1983 budget provides for the continuation of an experimental program to increase the opportunities for potential faculty members in electrical, computer and systems engineering to conduct research in these fields. How much is earmarked for this program in FY 1982 and FY 1983? Please describe this program in more detail. What assessment has been made as to the impact of this program on faculty recruitment?

Answer: The New Engineering Faculty Research Incentive (NEFRIT) is designed to provide incentives to attract highly qualified engineers to academic positions through funding potential engineering faculty members engaged in research normally supported by the Division of Electrical, Computer, and Systems Engineering.

The program consists of a two-stage award process. Full and part-time graduate students as well as engineers and scientists currently employed outside the academic community are eligible to submit proposals. Individuals selected for an award ($10,000 for 12 months) will receive a commitment from NSF for research support contingent upon their acceptance of a tenure-track faculty position in an engineering department at a U.S. college or university. If a tenure-track faculty position is accepted within twelve months of the date of award at an institution that meets the eligibility requirements, a grant will be made for support of the project upon application by the institution. If such a position is not accepted, the commitment for funding will expire.

In FY 1982, $500,000 was earmarked for the NEFRI program by the Electrical, Computer, and Systems Engineering Division. Only 38 proposals were received and 14 were considered by the evaluating panel to be of a quality worthy of funding. Fourteen grants for $10,000 each were recommended.

In FY 1983, we anticipate another NEFRI solicitation. At this time, we have not earmarked funds for the program. Factors to be considered are: an assessment of the FY 1982 proposals; discussions with our advisory panel and with the research community; and a better view of the FY 1983 budget.

The initial NEFRI awards are being made at this time and there has not been sufficient experience to evaluate the impact on faculty recruitment.

SCIENTISTS AND ENGINEERS IN THE 1980's

Question: Could you provide, for the record, your current estimate of supply and demand by disciplines for the decade of the 80's?

Answer: 1990 projections, generated by the Bureau of Labor Statistics for a 1980 study prepared jointly by the National Science Foundation and the Department of Education entitled Science and Engineering Education for the 1980's and Beyond estimated that there will be about 3.4 million science and engineering baccalaureates and 630,000 science and engineering master's degrees awarded between 1978 and 1990. Given this degree production, generally adequate supplied of scientists and engineers are projected except for computer specialists, industrial engineers, and aeronautical engineers.

The projections reflect the following assumptions: a decline in unemployment rates to 4.5 percent; an annual increase in labor productivity of 2.4 percent more than the 1980 rate (-0.2 percent) for the years 1985-1990; and a modest rise in defense expenditures (no greater than 43 percent) between 1978 and 1990. Since the preparation of these projections, current plans for defense expenditures have been revised to show an increase that is more than twice as large and in a shorter period of time (i.e. between 1981 and 1986). Thus, the projections are believed to understate the extent to which shortages among scientific personnel may occur in the 1980's. NSF is currently updating these projections to account for this change in projected expenditures.

Question: Last year you stated that there was an immediate problem in a few disciplines such as computer science, engineering, and geophysical sciences where shortages are causing a drain on university faculty and the job incentives for baccalaureate degree holders are sufficiently high to discourage many students from seeking advanced degrees.

What specific NSF activities will address this shortage and how does this compare to the resources NSF originally requested from OMB for these purposes?

Answer: The FY 1983 budget request provides continuing support for a new, innovative program in electrical, computer, and systems engineering intended to increase opportunities for potential faculty members to conduct research in these fields. Full and part-time graduate students, new faculty, and engineers currently employed in industry interested in moving into academic positions are eligible for these multi-year research awards. In the case of graduate students or others employed outside of academia, receipt of the award is contingent on acceptance of a tenure-track position at an appropriate academic institution.

For the earth sciences, the FY 1983 budget request continues the previous emphasis on work in this important area. The requested amount of $34.4 million represents an increase of $5.2 million or 17.8 percent over the FY 1982 Current Plan. This emphasis will provide broad encouragement for students to pursue research careers in these fields.

More generally, the selective emphasis in the Foundation's FY 1983 request on improving research instrumentation may also help improve the attractiveness of research and teaching careers. However, current trends clearly have broad, national implications for private industry and academic institutions well beyond the role which the Foundation can play. While NSF is seeking to address this issue in innovative ways within its existing programs and priorities, the solution will depend on changing economic conditions and the increasing sensitivity of industry and academia to its dimensions.

Throughout the development of the budget request for FY 1983, the Foundation emphasized the earth sciences, computer sciences, and computer and electrical engineering. These areas were given high priority by the National Science Board and they were consistently stressed by the Foundation in its discussions with OMB.

In September, the request for Computer Science was $32.7 million, for Electrical, Computer and Systems Engineering it was $32.2 million and for Earth Sciences $36.8 million. A revised request which was submitted in October reflected, over all, the President's proposed 12 percent budget reduction. Within this reduction, those three programs would have received $27.6 million, $28.9 million and $34.4 million respectively. Beyond these general program requests, the Foundation did not ask for funds which were targeted at addressing this shortage.

Industry-University Cooperation

Question: Your FY 83 budget contains $6.0 million for Industry Cooperative Research Projects, up $500,000 from FY 1982. Small Business Innovative Research is also up $500,000 to $5.5 million, as are your Industry/University Cooperative Research Centers.

What matching funds do you expect will be made available as a result of these programs?

Answer: NSF Industry/University Cooperative Research Projects (IUCR Projects) are fundamental research projects to advance scientific and engineering knowledge relevant to future technological innovation. In FY 1983, NSF plans to spend $12 million on these projects, with $6 million from the IUCR Projects Program budget and $6 million from the NSF basic research programs budget. In these cooperative projects, NSF will normally pay the costs of the university participation and often some portion of the costs of the industrial participation. Since these cooperative projects are fundamental, nonproprietary and result in information published in the public scientific and engineering literatures, full industrial sponsorship of these projects would be inappropriate (as they are public goods). However, in about half of the cooperative projects, the industrial participants have paid their own costs and in the other half, industrial participants will pay at least 50% of their own costs (except for small businesses which pay 10% of their own costs). Accordingly, for the $12 million which NSF plans to spend on cooperative fundamental projects in FY 83, industrial joint sponsorship of these projects can be expected to contribute another $6 million in addition to the NSF funding.

The Industry/University Cooperative Research Centers Program has experienced considerable success in obtaining matching funds from industry for basic and applied university research programs. The ratio of industry to NSF funds supporting current centers approaches a ratio of 3 to 1. Experience to date indicates that this trend will continue. If so, the Industry/University Cooperative Research Centers Program budget of $2 million for FY 1983 will be matched by about $5 million from industry. In addition, industry has already made equipment valued at over $3 million available for use in centers.

The Small Business Innovation Research program to date has attracted large amounts of private follow-on funding due directly or in part to the NSF research funded with small high technology firms. The first solicitation (FY 1977), the only one of five solicitations which has completed both phases I and II, resulted in $41 million of private funding to date, compared to $5.3 million of NSF research funds. Although the second solicitation conducted in 1979 has not yet completed phase II, some $6 million of private follow-on funding has occurred, compared to a $3.7 million NSF research expenditure.

Question: Your budget justification states that: "The Foundation's role in stimulating areas of industry/university research cooperation can be only a small, catalytic one. Major initiatives for exploring the full range of possible cooperative activities must come from the academic and industrial sectors themselves." Could you please expand on that statement?

Answer: By the phrase, "major initiatives for exploring the full range of possible cooperative activities must come from the academic and industrial sectors themselves," the Foundation was referring, for example, to the special arrangements that major firms have been making with universities primarily in the area of genetic engineering.

There have been at least twenty-one of these research arrangements, such as: Monsanto and Harvard, Monsanto and Washington University, Exxon and MIT, Cornell University and Procter and Gample, University of Maryland and DuPont Company, Stanford and University of California at Berkeley and Engenics.

The rapid emergence of a new technology (genetic engineering) directly from a science base (molecular biology and genetics) has stimulated firms and venture capital to invest in new companies and in university programs both for patent rights in and windows upon the new technology. Because of the rapid and wide interest in the new technology and because of restricted numbers of biologists skilled in the new techniques, there has been a scientific personnel supply-and-demand problem in this area. Accordingly, almost all the recent major industrial/university initiatives have been in biotechnological research. In addition, there are two industrial sector initiatives specifically to encourage industry/university cooperation -- the Council of Chemical Research and the Semiconductor Association's Industry/University Cooperative Program.

General criteria of appropriate funding by industry or government are:

(1) the Federal government should principally be responsible for funding industry/university cooperative research when the research is fundamental, nonproprietary and published in the open scientific literatures;

(2) industrial firms and associations should principally be responsible for funding industry/university cooperative research when the research is applied or proprietary.

These criteria are justified because fundamental research normally provides benefits to industry that are not capturable by a single firm or several firms in a competitive and near-term arrangement. Accordingly, fully industrial benefits from fundamental research are experienced generally, widely and over long periods of time. Fundamental research support has thus become a government responsibility.

In contrast, industrial sponsorship of research is predominately applied and developmental and proprietary in order to provide competitive advantage to the sponsoring firm in creating new or improved industrial products and processes. In this way, private capital of the stockholders expended on R&D is intended to provide significant returns on investments to the stockholders. Industrial sponsorship of university research is important but a relatively small proportion (about 3%) of all university-sponsored research.

The National Science Foundation's programs in industrial/university cooperative research sponsor fundamental research which advances scientific and engineering knowledge in areas important to technology. All NSF-sponsored research is openly published and nonproprietary. In addition, NSF programs encourage the building up of research relationships between universities and industry which may lead to major initiatives that industry and universities can form between themselves.

Question: How does your pending request for these programs compare to your OMB request?

The NSF request to OMB for these programs compared to the President's FY 1983 Budget was:

	OMB Request FY 1983	President's Budget FY 1983
	(Millions of Dollars)	
IUCR Projects	$ 10.5	$6.0
IUCR Centers	$ 2.0	2.0
Small Business Innovative Research	$ 5.5	5.5

The reduction in the IUCR Projects Program was made subsequent to the President's call in October 1981 for a reduction in FY 1983 budget requests. It does, however, represent a modest yet viable program of support for cooperative research efforts.

Small Business Set-Asides

Question: As you know, there is a bill in both the Senate and the House that earmarks a portion of various agencies' R&D funds for small businesses. In fact, in the Senate, S. 881 has 85 cosponsors. I know that individuals in the university community have raised some fundamental questions about the advisability of such a set-aside.

Could you tell us what their major objections are?

Answer: The universities have expressed objections to the passage of legislation that would mandate Small Business Innovation Research Programs in each major research-supporting agency. In general, university spokesmen have argued that the proposed legislation would shelter one class of research performers from the full rigors of open competition, and they assert that this might lead to funding of proposals that have not met the full tests for quality. They are particularly concerned about basic research. Such views were presented on January 27,1982, to the House Committee on Science and Technology during hearings on H.R. 4326, a House bill similar to S. 881, and on February 2, 1982, to the House Subcommittee on Health and the Environment of the Committee on Energy and Commerce.

Question: How do you feel, in general, about such set-asides and earmarkings?

Answer: In general, the NSF has opposed set-asides and earmarkings. However, the Administration considered the purposes and implications of S. 881 and on October 6, 1981, the President stated his support of S. 881 in a letter to Senator Rudman. Since S. 881 formalizes a program that NSF itself devised and has in effect, if the levels specified in S. 881 were enacted we would not expect the increases in NSF's SBIR program levels to affect other NSF programs adversely. We support the President's position on S. 881. However, H.R. 4326 has proposed considerably higher levels of SBIR funding than S. 881, and NSF has opposed H.R. 4326 as has the Administration.

"CREATIVE FINANCING" OF RESEARCH FACILITIES AND EQUIPMENT

Question: Your budget justification suggests that State and local governments as well as universities should explore new and creative ways of financing equipment.

What is NSF doing to encourage such efforts as creative financing?

Does NSF intend to collect and disseminate examples of successful financing programs?

Answer: "Creative financing" techniques are somewhat sophisticated compared to general budgeting and financing techniques and thus not within the experience of many university research administrators or, for that matter, many members of the Foundation staff. Over the past two years we have begun to explore such methods, particularly to address needs for expensive equipment and facilities to keep laboratories modern. Some members of our staff are looking into the advantages and pitfalls of various techniques. We have also begun to encourage more thinking about this matter by research administrators and scientists, through discussion of the topic in forums such as the NSF Advisory Council, our divisional advisory committee meetings, and meetings held by others such as the National Academy of Sciences' Workshop on Scientific Instrumentation.

The idea of disseminating examples of successful cases is a good one and we will pursue it. The Foundation's Office of Planning and Resources Management will undertake to develop, or fund the development by others, of a guide that describes some of the techniques with case histories. When and in what form this product can be completed will need to be worked out, but it would no doubt be useful to many administrators, researchers, and to our staff to have such information available.

We will also develop a plan designed to make universities more aware of alternative financing methods and of the opportunities to do more for themselves in this regard. Because of the magnitude of laboratory modernization needs, we cannot foresee how much a "creative financing" effort by the universities would offset the need for continuing Federal support, but it would appear that some institutions could take care of an important part of their needs without requesting Federal support.

On related matters, OMB has requested public comment on a proposal to amend Circular A-21 (concerning cost principles) to recognize interest costs as an allowable indirect cost. Such a change would go a long way toward providing the cost recovery necessary for academic institutions to make creative financing techniques possible, and we have informed OMB of our strong support for this idea.

Question: Section 222 of the Economic Recovery Tax Act of 1981 permits an increased deduction for manufacturers who donate scientific research equipment to institutions of higher education. What data is NSF collecting to determine the effect of that provision?

Answer: At the request of the Office of Management and Budget, the Foundation's Division of Policy Research and Analysis is conducting a study of the effects of Section 222. The study results are to be used in the preparation of the President's budget for research and development in FY 1984.

ORGANIZATION

Question: Recently you informed the Committee of your intent to downgrade the Science and Education program to an office.

Why did you make this decision?

As you know, it is likely that your Authorization Act will contain $10-30 million for science education, even though the Administration has not requested any funding in FY 83.

First, from an organizational/management standpoint, what problems, if any, would the appropriations of such funds have?

Secondly, what problems, if any, would this pose in terms of a wise Federal investment at this point in time?

Answer: The Director is charged with the responsibility of making management decisions that will effect the most efficient administration of programs within NSF. Consistent with that administration duty, he reviewed the personnel totals within each Directorate, along with the level of Congressional appropriations for each. In FY 82 the final Congressional appropriation for science and engineering education was $20.9 million--a reduction of close to $50 million from the FY 81 level. In his judgment, it did not make good administrative or fiscal sense to continue the staffing level in the Directorate for Science and Engineering Education as if NSF had an appropriation of $70 million. Nor is it consistent to retain a directorate of 15 individuals who are primarily administering continuing grants.

Additionally, OMB set the FY 82 personnel ceiling for NSF at 1,163 full-time permanent employees, a reduction of 55 employess from the FY 81 ceiling of 1,218. For FY 83 the personnel ceiling was set at 1,118--a reduction of an additional 45 employees. These reductions in personnel ceilings have necessitated reductions-in-force at NSF, most particularly in activities with reduced funding. Fortunately, we have been able to place most of the affected employees elsewhere in the Foundation, where they will continue to provide a resource of information and advice on scientific and educational matters.

Therefore, given the level of Congressional appropriation in FY 82 for science and engineering education, coupled with the reductions in personnel ceilings for the past two fiscal years, the Director determined that the overall administrative functions of the NSF could be served best by disestablishing the Directorate for Science and Engineering Education. After discussions with the National Science Board about his resolve to make such administrative changes, the Office of Scientific and Engineering Personnel and Education was announced effective March 21, 1982.

There would be problems if additional funds are added by the Congress for activities for which no funds were requested for FY 1983. A very serious issue would be that of the anticipated lateness of any appropriation for FY 1983. Lead time is important in mounting program activities. This could be minimized if any such appropriation were not a one-year appropriation. Staff would also be a major problem. The former Science and Engineering Education Directorate staff has been reduced to 18, all of whom are carrying a very heavy workload. It is true, however, that many of those who were forced to find other positions are still at the National Science Foundation. This is a matter that would again require ample lead time to devise a workable plan.

In our opinion, the wisest Federal investment would be made after the National Science Board Commission on Precollege Mathematics, Science and Technology has had time to study options and make recommendations.

ANTARCTIC PROGRAM

Question: Each year the request for Antarctic operating support increases. One of the major reasons for such increasing costs have been rising fuel prices.

How much have you budgeted for fuel costs in FY 1983, and how does this compare to FY 1982?

Answer:	FY 1983	FY 1982
Aviation Fuel	$ 6,498,000	$ 5,427,000
Other Fuels (Heating, Motor Vehicles)	3,482,000	3,366,000
Totals	$ 9.980.000	$ 8,793,000

Increased fuel costs is only one of several factors that contribute to increased operations support costs. Over the past several years there have been major increases in military personnel compensation. For example, the cost of the October 1, 1981, military pay raise was about $2.5 million. The October 1, 1980, military pay raise cost a like amount. Also, there have been inflationary cost increases for all goods and services such as commercial airlift, chartered ships, procurement of equipment and spare parts. The last major fuel price increase occurred in FY 1980 when prices more than doubled.

Question: What per gallon price did you assume when developing your FY 1983 budget -- is this the same as assumed by DOD?

Answer: The Navy obtains fuels used by the antarctic program from the Department of Defense (DOD) centralized fuel procurement and distribution system. We use the DOD actual or projected costs for budget purposes. The per gallon costs used for the FY 1983 budget estimates were:

Aviation Fuel in U.S.	$1.534
in Antarctica	$1.404
Heating Fuel	$1.507

An 8 percent increase for aviation fuel and a 10 percent increase for heating fuel was used by the Navy in preparing the FY 1983 budget estimates.

Question: What major equipment purchase do you expect will have to be made to support the antarctic program during the next 5 years?

Answer: The major equipment procurements are:

- Two snow blowers used to clear snow from the ice runway
- Two special configured cargo carriers - large wheels and tires for transport over snow and ice
- Six passenger vans to move persnnel in and around McMurdo Station, i.e., to and from runway/skiway
- Four dump trucks for McMurdo Station

The major facility requirements for McMurdo Station are:

- A new garage facility to replace the structure and contents destroyed by fire in December 1980
- Three new dormitory buildings to replace old and unsafe structures
- A new multidiscipline science laboratory
- Two new warehouses

In addition there is a need to replace the seven UH-1N helicopters presently in use. The present helicopters are aging and are no longer being manufactured. This will be a major one time procurement.

Also, there is a need for a major overhaul of the two older LC-130 aircraft to extend their service life.

Question: What assurances do you have that the $13 million transfer from the Coast Guard for icebreaking activities will really materialize during FY 1983?

Answer: There is no planned transfer of funds from the Coast Guard to NSF for icebreaker support. There is $13.4 million in the NSF FY 1983 budget request which will be transferred to the Coast Guard for icebreaker support.

For FY 1982 and prior years there has been only partial reimbursement to the Coast Guard for icebreaker services in support of the U.S. Antarctic Program. Effective in FY 1983 the total operating cost of Coast Guard icebreakers is being included in the budget requests of the various Federal agencies utilizing icebreakers in support of their programs. Inclusion of these funds in the NSF budget rather than in the Department of Transportation budget is another step in the consolidation of all U.S. Antarctic Program costs in one organization. It does not result in an increase to the total Federal budget.

Question: What would NSF do if these funds were not provided by the Coast Guard?

Answer: See response to the preceding question.

US/POLISH SCIENTIFIC COOPERATION

Question: On December 11, NSF and the Polish Academy of Sciences signed a Five-Year Memorandum of Understanding (MOU) to establish a Cooperative Basic and Applied Scientific Research Program.

What is the current status of this program?

How much is in the FY 83 budget to implement the MOU?

Answer: All activities in this agency-to-agency program have been suspended since martial law was invoked in Poland on December 13, 1982.

NSF planned to jointly support, with the Polish Academy of Sciences, a few seminars in FY 1982 and FY 1983 to bring together scientists whose research would benefit from collaborative research in subsequent phases of the Program. The level for FY 1982 and FY 1983 would have been dependent on the number and quality of proposals received at NSF, perhaps amounting to 10-20% of NSF's budget of $500,000 for support of joint scientific activities with counterpart agencies of Eastern Europe.

A broader government-to-government agreement that includes several USG agencies also exists. NSF, with the Departments of

Agriculture, Commerce, Education, Energy, Health and Human Services, Interior, Transportation, and the Smithsonian Institution, participates in the Joint Board research approval process under the Agreement between the Government of the United States of America and the Government of the Polish People's Republic of Funding of Cooperation in Science and Technology.

The U.S. Government scientific cooperation with Poland has been suspended since expiration of the agreement governing the U.S.-Polish Joint Board on December 31, 1981. Negotiations for extending this agreement were suspended with the imposition of martial law. The Department of State had planned to request a U.S. contribution of $3 million for FY 1983 to the Joint Board (with an equal contribution from the Polish Government); this request is now in abeyance. Ongoing projects already approved by the Board will proceed; no new projects will be negotiated (indeed, there is no money in the Joint Fund for project support).

CORPORATE TAX TREATMENT OF R&D

Question: In December you released copies of a report entitled, "Corporation Income Tax Treatment of Investment and Innovation Activities in Six Countries." Could you summarize some of the major tax incentive mechanisms that are in place in other countries that we do not have in the U.S.? Which of these provisions appear to have been successful in generating investments in R&D?

Answer: This sudy examined corporation income tax treatment of domestic investment and innovation activities in the United States, Cananda, France, the Federal Republic of Germany, Japan, and the United Kingdom. Other activities (e.g., international transactions) and other taxes (e.g., value-added tax) were not covered. Since focus on an individual tax provision can be misleading (e.g., the United States does not offer special treatment for corporation patent sales as do some countries, but such sales may be eligible for the lower capital gains tax rate), the primary purpose of the report is to document the "bundle" of tax provisions which the six countries used. The review of the diverse "bundles" suggests that no one country offers uniformly better treatment for innovative activities.

Special provisions directly related to R&D are: (1) tax deduction (Canada), or tax credit for firms which meet certain accounting standards (Japan), for increased R&D spending; (2) first-year 50 percent write-off for R&D buildings and for small companies R&D equipment and tools (France); and (3) first-year 100 percent write-off for R&D capital costs (Canada and the United Kingdom).

To our knowledge, there is no quantitative empirical evidence about the effects of various tax incentives on R&D. Analytical evidence suggests that the effects can be positive and depend on the presence of other factors such as business confidence and the economic climate. PRA is initiating work in this area.

SECRECY AND UNIVERSITY RESEARCH

Question: Could you please comment on NSF's position on the issue of national security consideration, research and visitation restrictions?

Answer: Because science flourishes best in an open atmosphere, the NSF is reluctant to see restrictions imposed on either the conduct of research or on the publication of research results. We recognize, however, that in some situations restrictions on university research may be warranted. We have, for example, accepted the idea that the publication of research results may be postponed briefly to permit the filing of a patent application. We also accept that national security considerations may require some restrictions on research. Obviously, if a university wants to undertake classified research, it must agree to abide by the restrictions against sharing the information with colleagues other than those who are cleared and have a "need to know."

In thinking about when controls on university research might be appropriate, it is important to recognize that most university research is fundamental research and does not directly involve technical "know-how" or "industrial processes." As a result, most university research is of little direct national security importance.

Despite this, there may be specific cases when those responsible for this Nation's national security can make a persuasive case that controls are necessary. The NSF's partial funding of the Public Cryptography Study Group reflected our judgment that cryptography might present one of those cases. It also reflected our judgment of the importance to the Nation of having the relevant scientific and national security communities sit down with one another, hear each other's case, and agree on a procedure that seems to meet national security objectives without unnecessarily burdening scientific openness.

While the solutions reached in that forum may not be applicable in other scientific disciplines, we think the precedent of a constructive dialogue is one that should be encouraged. Like a vital scientific enterprise, a collaborative working relationship between our scientific establishment and the officials and agencies of the Government charged with our Nation's defense is a vital component of real national security. The Foundation will continue to work toward building and strengthening that kind of relationship.

REPLACEMENT OF ANTARCTIC STATIONS

Question: What is the current status and future plans, including cost estimates, for your Siple, Amundsen-Scott, and McMurdo Antarctic Stations?

Answer:

SIPLE STATION

The current Siple facility was completed early in 1979. The future plan is to close Siple Station for two years after the 1983 winter. It would reopen for the 1986 and 1987 winters and then close permanently in December of 1987. After that the atmospheric research emphasis will have been shifted to other areas of Antarctica, particularly the South Pole.

Except for routine upkeep and maintenance, we do not anticipate any major expenditures for Siple Station throughout the remainder of its life. Although we have no current plans for a second inland station after 1987, we intend to keep our options open for that possibility.

AMUNDSEN-SCOTT STATION

The current South Pole facility was completed in 1975 with an expected life of 12 to 15 years. It is difficult to be certain right now, but we expect that we will have to replace the current facility in the late 1980's. We have already started preliminary planning for that eventuality, and we are looking at two preliminary designs for a new station. One would be built under steel arch on the surface and the other would be an elevated structure similar to the current Dewline radar facilities in Greenland. Because of the long lead time involved in designing, procuring, and building a station at the south geographic pole (approximately 6 years), our cost estimates are very preliminary; however, we expect that the surface design would be about $12 million and the elevated design would be approximately $30 million.

MCMURDO STATION

We are currently in the very early stages of rebuilding McMurdo Station. This is based on a long range development program which makes use of certain core facilities that are relatively new, supplemented by the replacement of most other facilities over a 10 to 15 year time frame. When we started initial construction under the plan in 1978, we hoped to be able to commit $2.5 to $3 million per year toward this effort. We have not been able to do this each year, and the long range plan is currently behind schedule; however, we are making steady progress. At the time that the plan was formulated, the total estimated cost was $30 million (1977 dollars). After completion of the first of the new buildings, we know that the estimate was highly optimistic.

The Williams Field complex, which supports the air operations at McMurdo, is a semi-portable facility located on the Ross Ice Shelf some 5 to 6 miles from McMurdo Station. Because of the heavy snow build up and constant movement of the ice shelf, the building modules have to be dug out each year and completely relocated every 4 or 5 years. We are planning to relocate the present facility in the 1983-84 Antarctic season. Because many of the modules that make up the facility are old or have been damaged in digging out and moving, we must procure a large number of replacements. We anticipate that the cost of design and procurement of these replacement facilities will be approximately $2 million.

Question: Evidently NSF and the Navy agree that shifting from the Navy to contractors for station support is desirable. What advantages would such a shift have, and what are the cost implications?

Answer: The President's memorandum of February 5, 1982, "United States Antarctic Policy and Programs" directed NSF, inter alia, to "use commercial support and management facilities where these are determined to be cost effective and will not, in the view of the Group, be detrimental to the national interest." ("Group is the Antarctic Policy Group, chaired by the Department of State with the National Science Foundation and the Department of Defense as permanent members.) The quoted portion of the President's February 5 directive was a reaffirmation of previous policy guidance last issued in early 1976.

Since cost effectiveness is the determining criteria, the only cost implications are reduced cost.

Transfers of functions from the Navy to contractor are done on a selective basis. The contractor is now responsible for all construction activities and actions are under way to transfer responsibility for operation and maintenance of utility systems and vehicle and equipment maintenance at McMurdo Station. The contractor operates South Pole, Siple and Palmer Stations and operates the research vessel Hero.

The advantages of contractor performance of certain functions is continuity of management and manning, as the Navy has a continual turnover of personnel; also, the contractor can hire employees for short peakload periods as opposed to Navy personnel for whom NSF must reimburse year round.

FOCUS OF UNIVERSITY RESEARCH

Question: On December 10, Dr. H. Guyford Stever, Chairman - Assembly of Engineering, National Research Council, made the following statement before the House Committee on Science and Technology: "Our system has developed a weakness over recent decades as a result of the increasing proportion of Federal funds in research support for universities and the corresponding decline in industrial funding of university research. This concentration of funding in the Federal government has focused research in the universities on government missions — defense, health, weather, climate, space and so on — and away from those sciences and technologies that help industry develop their manufacturing processes and the technology for efficient production. It has also lessened the interest of graduates in going into industry from the universities to work on the innovations needed for an expanding and competitive economy." Do you believe that this statement is valid?

Answer: Dr. Stever raises some interesting points, and reflects the perception of many that there has been a widening gap between the university and industrial communities. (See, for example, the Report of the Industrial Advisory Subcommittee on Direct Federal Support of Research and Development, in the Final Report of the Advisory Committee on Industrial Innovation, Department of Commerce September 1979, p. 205 ff.) But some of the particulars of the statement, at least with respect to the last 10 or 15 years, do not seem borne out by available evidence.

On the declining proportion of industry support for university and college research, Dr. Stever's statement is accurate only through the late 1960's. In 1953, even before the great surge in Federal funding began, the Federal government supported 54% of university research and industry about 7%. In 1960, that figure was 6%. In the early 1960's, industry's investment in academic research was fairly constant at about 40 million dollars, while Federal support was expanding rapidly. Industry's share of the total consequently dropped at that time to about 3%. In the late 1960's, however, the growth in Federal support leveled off and industry funding accelerated. Industry's share did not increase dramatically because university and colleges and other non-profit institutions were also pouring more money into the total at that point, but the Federal percentage dropped to 66% in 1978 from 73% in 1968. Industry now pays for about 4% of the research efforts of universities and colleges; its support is growing faster than that of any other source.

Since industry itself is investing more and more heavily in university research, it is difficult to argue that the high level of Federal support has caused universities to grow away from industrial interests. It is true that industrial researchers were citing the papers of university researchers less often in 1977 than they did in 1973, but by 1979 they were also co-authoring papers with them more often in almost every field.

In addition, the results of Federally funded mission-oriented research often are of use to industry. The Defense Department, for example, spends 70% of its academic research budget on engineering, mathematics, computer science, and physical sciences, all areas in which spillovers into industrial applications are likely. (62% of the Defense Department's research in universities, to take just one important agency, is classified as basic research spending.) Other examples of spillovers occur when areas of basic research blossom suddenly and unexpectedly into industrial application. A recent case is biotechnology, an area in which industry perceives an imminent revolution in manufacturing processes as an outgrowth of fundamental research directed toward the nation's goal of better health. That such applications are hard to predict is probably the reasoning behind industry's own long-standing position in favor of increased Federal funding for basic research in universities. (See for example Stimulating Technological Progress, A Statement by the Research and Policy Committee of the Committee for Economic Development, C. E. D., New York City, 1980, pp. 62, 63, and 64; and the Final Report, Advisory Committee on Industrial Innovation, cited above, pp. 13 and 210.)

Data soon to be published by the National Science Foundation do not support the contention that recent science and engineering graduates are losing interest in going into industry. Rather, the opposite appears to be occurring. Between 1976 and 1980, the proportion of recent science and engineering graduates at the bachelor's level going into industry increased from 55% to 65%. Similar patterns can be seen for recipients of masters and Ph.D. degrees. For example, of those earning their doctorate in 1973, 14% found initial employment in business and industry. In 1981, this proportion had grown to 19%.

PEER REVIEW

Question: A study conducted by the National Academy of Science on peer review concluded, among other things that: "The Foundation should consider replacing its single rating scale with separate rankings of each proposal for such criteria as proposal quality, expected scientific contribution, orginality and the investigator's past track record of performance". What are you doing to implement this recommendation?

Answer: In arriving at a decision on a proposal, the NSF staff places major emphasis on the content of each review rather than the score assigned by a reviewer. The items mentioned by the NAS study are expected to be addressed by the reviews with varying emphases as appropriate to each proposal. Therefore, we have not felt the need to have separate scores for the various criteria, especially since the criteria have different weights in different cases (e.g., a new young investigator has little "track record" compared to an established scientists and must be judged accordingly). In a few special programs we have used a more detailed record but a discussion of this point in the NSF Management Council when it reviewed the NAS study indicated that a change in procedure was not warranted for the reasons given above.

DOD ROLE IN SCIENCE EDUCATION

Question: Recently there has been considerable discussion about the possibility of the establishment of a National Science Center for Communications and Electronics. As envisioned, this educational facility would be a cooperative military/industry effort.

Have you been consulted as to the scope and mission of such a Center?

What role would you consider to be appropriate for DOD and NSF in such a venture--including the interface?

Answer: Staff members of the Defense Communications Agency, sponsors of the National Science Center for Communications and Electronics, have contacted staff members of NSF regarding the Center. These contacts have been more on the order of mutual information exchange rather than formal consultation.

As we understand it, the Center will have a major role in training DOD personnel, with access to facilities and information being provided to a larger audience. Given the DOD training role, the NSF role probably should be what it has been--informational.

FELLOWSHIP PROGRAM

Question: This year you are requesting $15 million for graduate research fellowships. This will provide for the same number of fellowships in FY 82. The 1,390 fellowships are based on an annual stipend of $6,900 plus a cost-of-education allowance of $4,000 per year.

I understand that there is some concern that the stipend may not be sufficient.

When was the last adjustment in the stipend?

If the stipend were increased, would you reduce the number of fellowships or request a supplemental?

Answer: The last adjustment was made in FY 1982 when the annual stipend was increased from $4,800 in FY 1981 to $6,900 in FY 1982.

The Foundation's highest priority use of additional FY 1983 fellowship funds would be to increase stipends. However, in the absence of such additional funds, a careful balance between increased stipend levels and reduced numbers of awards would have to be struck so that the number of new award offers would not fall below the critical level (estimated to be a minimum of 450 per year). NSF does not as a rule favor the use of the supplemental request mechanism to acquire additional program funds.

OCEAN DRILLING PROGRAMS

Question: You are now requesting $14 million for your Ocean Drilling Programs. This is a decrease of $6 million from the FY 82 level. What factors resulted in the decision to reduce funding in FY 83?

Answer: The $14 million in the 1983 budget covers only the final year of Challenger operations in the Deep Sea Drilling Project. At the time of Budget submission, no decision had been made as to whether to proceed with the Advanced Ocean Drilling Program. (AODP). Since that time the program has been unanimously endorsed by the National Science Board. The Administration has not yet taken a position on the AODP. If AODP goes forward, we will reprogram to add $9 million to the FY 1983 ODP request.

Question: You note that NSF will be considering whether to recommend the modification of the Glomar Explorer as a replacement for the Challenger. When will this decision be made and what factor will be most important at arriving at this decision?

Answer: - The Administration decision is expected by early summer. Criteria for the decision are the following:

- The relative scientific benefits of Explorer and Challenger
- Explorer conversion costs vs. Challenger refit costs
- Operating costs over the long run
- Level of expected international support. We believe we can double the present level of support from the foreign scientific community by moving to the new ship.

Question: What factors caused the collapse of the NSF/Industry agreements on the Explorer?

Answer: Only ten companies were involved, they felt that a significantly larger portion of the industry should share in the costs and risks. When it did not prove possible to expand membership, the participating companies felt they could not continue. A major difficulty both in recruiting new members and retaining the original group was the changing economic circumstance of the industry. Declining oil prices resulted in sharp cuts in exploration budgets, the category under which most oil companies justify their research support activities.

Question: How much useful life is left in the Challenger and how much would it cost to extend usefulness for another 10 years?

Answer: Challenger, now 14 years old, is close to the end of its economically productive life. To our knowledge, no drill ship has been operated commercially for more than 16 years. Industry practice is to build new ships rather than to incur the costs of major rehabilitation. A major reason for the industry practice is that deep sea drilling technology changes rapidly and demands larger ships to carry more sophisticated equipment.

For any significant extension of her useful life, Challenger would require some rehabilitation. A light refit would require an investment of about $11 million, after which the ship could operate reasonably productively for 5 to 8 more years. The basic limitations of Challenger primarily relate to size, however, and thus a refit can only restore some of her capabilities, not materially enhance them.

Question: From what areas would the $9 million reprogramming be requested?

Answer: We propose to reprogram $3 million each from Mathematical and Physical Sciences, Biological, Behavioral and Social Sciences, and Astronomical, Atmospheric, Earth, and Ocean Sciences Activities.

TRAVEL

Question: For FY 1983 you are requesting a decrease in each of your travel accounts, including travel of proposal reviewers, panelists and advisors, but you are not requesting a reduction in Executive Management Staff travel. Is this the account that funds trips for Congressional members and staff? How many non-NSF personnel traveled under this account during FY 1981 and FY 1982 and how many do you expect in FY 1983? What is your estimate of the total costs for such travel in each of these years? The table on page PDM-6 of your budget justification shows a savings of $100,000 or 8% for proposal reviewers, panelists and advisors during FY 1983. The table on the following pages, however, shows a net decrease of $10,000. How do you explain this difference? What are the numbers and types of trips that you will not be able to fund in comparison to the FY 1982 level? Will this affect the quality of your review process?

Answer: Travel of Congressional members, if any, and staff is included in the staff travel line item under Executive Management.

In FY 1981, 8 staff traveled and in FY 1982, through April 24, 1982, 5 staff traveled. No members of Congress traveled at NSF expense in either FY 1981 or FY 1982.

In FY 1981 the cost of this travel was $6,874 and in FY 1982, to date, $4,522. It is estimated that the total for FY 1982 and FY 1983 will not exceed the approximately $7,000 annual rate of FY 1981.

The $100,000 reduction in travel of proposal reviewers, panelists and advisors shown on the summary table on page PDM-6 is the total estimated reduction in FY 1983 from the FY 1982 current plan level. All reductions for each of the subactivities tables shown on pages PDM-8 through PDM-16 equal the same $100,000 total reduction.

Since the individual travel of proposal reviewers, panelists and advisors varies depending on the distance traveled and the duration of the trip, the exact number and types of trips corresponding to the reduction is not known. $15,000 of this reduction is directly identified to Science and Engineering Education programs eliminated in FY 1983. The remainder of the reduction will result from controlling allocations to all other subactivities which generally means fewer meetings of a longer duration, thus saving on travel costs but meeting for approximately the same total days, less travel of consultants to site visit grantee institutions and a lower overall level of travel.

Program oversight and the quality of the review process will be somewhat affected by this reduction, but this will be offset by a greater reliance on mail reviewers and by holding proposal review meetings of longer duration. It is not expected that the reduction will drastically affect the quality of the review process.

BIOLOGICAL, BEHAVIORAL & SOCIAL SCIENCES (BBS)

Question: Your budget request for BBS is $186.7 million or $10.7 million above the FY82 level. Last year there was considerable controversy about the appropriate level of funding for BBS and I expect that will be the case this year as well.

Do you believe that the level requested is sufficient to maintain viable and strong biological, behavioral and social science programs?

What was the view of your Science Advisory Board about the adequacy of the proposed level of funding?

Are there any sub-activities that would profit more than others from additional funding?

Answer: The level of funding requested for the Biological, Behavioral, and Social Sciences is sufficient to maintain viable and strong research programs in the biological, behavioral, and social sciences. The budget request was developed in consultation with the National Science Board, the policy-making body for the Foundation, and reflects the priorities of the Foundation and the Board. The allocation of funds among the various research programs of the Directorate was based on an assessment of the resources required by the subactivities of the Directorate.

ASTRONOMICAL SCIENCES

Question: You are requesting $63.2 million for Astronomical Sciences in FY 83. This represents an increase of $4.1 million above the FY 82 level. How much is devoted to the support of the 5 National Astronomy Centers--please list these by facility?

Answer: The support of our 5 National Astronomy Centers as distributed by facility is listed below:

National Astronomy Center	Current Plan FY 1982	Request FY 1983	Difference FY 1983/82
National Astronomy and Ionosphere Center	$ 5,320,000	$ 5,690,000	$ 370,000
Kitt Peak National Observatory and Cerro-Tololo Inter-American Observatory	17,300,000	18,490,000	1,190,000
National Radio Astronomy Observatory	14,840,000	15,870,000	1,030,000
Sacramento Peak Observatory	2,000,000	2,140,000	140,000
TOTAL	$39,460,000	$42,190,000	$2,730,000

Question: You note on Page AAEO-2 and 3 of your budget justification that NSF provides about 67% of the Federal support for ground-based astronomy and that this may increase if NASA reduces its FY 82 and FY 83 astronomy program. How do you expect to respond to what now appears like a decrease in NASA's astronomy programs?

Answer: Budget stringencies preclude reprogramming funds to the extent necessary to accommodate the anticipated proposal pressure resulting from the expected decreases in NASA's astronomy programs. Such reductions would be anticipated to increase the demand on NSF's non-Center astronomical facility support by about $1,700,000 (29.8% over the planned budget) and on its Solar System Astronomy grant program by about $400,000 (66.7% over the planned budget). The likely result would be comparable proposal declinations, support terminations, or some combination thereof.

Question: What negotiation agreements do you have with NASA on the support of the Infrared Telescope Facility (IRTF) in Hawaii?

Answer: None; on January 15, 1982, Dr. William E. Brunk, Discipline Scientist of Planetary Astronomy in the Earth and Planetary Exploration Division of NASA's Office of Space Science and Applications, informed NSF of the strong possibility of NASA's having to terminate support for the IRTF in FY 1983. He broached the subject of NSF's assumption of support for the facility. NSF's response was that, while the scientific excellence and importance of the facility are indisputable, our FY 83 budget had been completed and precluded any funding commitment on the Foundation's part. Additional discussions on this topic have been held, and NSF

Director Slaughter has personally spoken with NASA Administrator Beggs to make NSF's position clear. A proposal for partial or full support of the IRTF can be submitted in competition with other funding requests, to be evaluated on the basis of its scientific merit relative to the other activities of NSF's Division of Astronomical Sciences. Since a decision to support the IRTF would almost surely require the termination of funding for major instruments at other observatories, if not whole observatories, NSF strongly encouraged efforts within NASA to find support for the IRTF from its own resources.

Question: How many scientists that use the IRTF are supported by NSF annually?

Answer: Sixteen percent of all the observing time on the IRTF is used by investigators receiving NSF support, comprising about 18 research groups per year.

Question: What unique capabilities does this facility provide to the astronomy community?

Answer: The IRTF is the most sensitive, versatile, and productive infrared telescope in the world because of its large size, its state-of-the-art design, and the superb atmospheric conditions at its site on Mauna Kea. Most infrared planetary and astrophysical research done with the IRTF could not be done elsewhere with comparable accuracy or efficiency.

ASSUMPTION OF RESPONSIBILITY

Question: Please prepare for the record a list of all activities expected to be transferred to NSF during FY 1983 and the costs associated with assuming the responsibility for these activities. Also prepare a list of those activities, such as the Stanford Synchrontron Research Laboratory, and the associated FY 1983 costs that will be transferred out of NSF during FY 1983.

Answer: The following transfers are anticipated in FY 1983:

- Support of Coast Guard Cutters - From U.S. Coast Guard to AAEO	$13.4 million
- Construction of MSU-Phase II Heavy Ion Accelerator - From DOE to MPS, Physics	$6.8 million

Transfers from NSF:

- Support of Strong Ground Motion Array - From EGN to U.S. Geological Survey	$1.2 million
- Responsibility for Stanford Synchrotron Research Laboratory - From DMR to DOE	$5.5 million

In addition, pending Congressional approval of the disestablishment of the Department of Education, the Minority Institution Science Improvement Program funded at $3.287 million will be transferred to NSF.

MICHIGAN STATE UNIVERSITY HEAVY ION ACCELERATOR

Question: You note that the responsibility for construction of the Phase II MSU heavy ion accelerator has been transferred to NSF from the Department of Energy. This additional expenditure of $6.8 million reduces the effective increase in your physics program from $13.2 million or 17.5% to $6.4 million or 8.5%.

What will be the outyear costs -- FY 84 and beyond -- associated with assuming this responsibility?

Answer: The outyear costs for construction of the Phase II MSU heavy ion accelerator are provided in the following table in millions of dollars. Construction is completed with FY 1985 funding.

FY 1983	FY 1984	FY 1985	FY 1986
$6.8	$5.5	$4.3	$0.0

The Foundation also supports research and operations at the nuclear physics facility of which MSU Phase II will be a part. These research operations costs amount to about $3.2 million per year in constant FY 1982 dollars until MSU Phase II goes into operation in FY 1986, when they will increase to about $6.4 million per year.

It should be noted that the effective increase in the physics programs of 8.5 percent in FY 83 is comparable to the effective increases provided to all other MPS subactivities except for Computer Research. Furthermore, the cost of the transfer of responsibility for MSU Phase II construction to NSF is nearly balanced out by the $6.0 million transfer of responsibility to DOE for operation of the Stanford Synchrotron Radiation Laboratory. Thus, these transfers do not materially alter the effective funding of any MPS programs.

INTERNATIONAL SCIENTIFIC ACTIVITIES

Question: Last year at our hearing I asked you if you believed that international scientific cooperation is likely to increase in the future. In response you stated that you expected it would increase.

I notice that your FY 83 budget request contains an increase of $760,000 to support the participation of U.S. scientists in international scientific activities.

I see that all of the $410,000 increase associated with Europe will be earmarked for Western European countries.

Was this decision made by NSF?

How much of your entire $9.1 million will be associated with funding U.S./Soviet cooperative research and how does this compare to the FY 80, 81, and 82 amounts?

Answer: The decision to allocate all of the increase for support of scientific cooperation in Europe to cooperation with countries of Western Europe was made by NSF because of recognition of the value of increased cooperation with scientifically advanced countries with capabilities equivalent to or superior to those of the United States. The National Science Board endorsed this view.

NSF does not plan to allocate any of the $9.1 million requested for FY 1983 for international cooperative scientific activities to fund U.S.-Soviet cooperative research. The FY 80, 81, and 82 amounts are shown below:

US/USSR Cooperative Research

FY 80	FY 81	FY 82	FY 83
$1,185,595	$ 397,982	$ 300,000(plan)	-0-

This funding was for NSF-supported activities under the U.S.-U.S.S.R. S&T Agreement only. This table does not include NSF support of scientific exchange programs with USSR and Eastern Europe carried out by the National Academy of Sciences. Support levels for interacademy programs are as follows:

FY 80 - $1,344,315
FY 81 - $1,000,100
FY 82 - $ 900,000
FY 83 (est.) - $1,000,000

Roughly one-third of funds for interacademy exchange programs are for exchanges with the U.S.S.R.

2- AND 4-YEAR COLLEGE INSTRUMENTATION PROGRAM

Question: Your FY 1982 and FY 1983 Budget justifications do not provide for a separate accounting for the 2- and 4-Year College Instrumentation Program. Could you present this information for the record?

Answer: The 2- and 4-Year College Research Instrumentation program was been deleted from the FY 1983 Budget Request as a specific budget line item because funding will be supplied by the appropriate research directorates. It will remain a separately identified program in all other respects. In FY 1982 and FY 1983, it is anticipated that approximately $2,000,000 will be available each year to fund research instrumentation proposals from the 2- and 4-year college community.

PROGRAM DEVELOPMENT AND MANAGEMENT - ADP

Question: In FY 1983 you are requesting an additional $344,000 for Data Processing Equipment. Please describe what these funds will be used for and provide a table detailing your FY 1982 program level of $1,074,000 for equipment in FY 1982 and $1,418,000 in FY 1983.

Answer: The line item equipment, is composed of two major categories: data processing equipment and a wide range of equipment requirements grouped as administrative services equipment.

Data processing equipment is budgeted at $806,000 in FY 1982 and $1,150,000 in FY 1983.

Early in FY 1982 a long range plan was developed which updated the Foundation's data processing requirements for the next several years. The FY 1982 portion of the plan calls for purchasing the second mini computer and associated peripheral hardware at an estimated cost of $350,000. Expansion of the prototype system consisting of the first mini computer purchaed in FY 1982 and implementation of multi-function workstations, including office automation hardware is estimated at $456,000.

In FY 1983, the plan calls for the purchase of the third mini-computer and associated peripheral hardware at a costs of $450,000 for an increase of $100,000 over similar purchases in FY 1982. Expansion of the existing system and implementation of additional multi functional workstations will cost $400,000 or $56,000 less than the comparable purchases in FY 1982. An additional expenditure in FY 1983 will be $300,000 for communication equipment which will link the three mini-computers and establish an initial network of existing workstations.

A table detailing the FY 1982 and FY 1983 program level for equipment follows:

COMPARISON OF PLANNED EQUIPMENT PURCHASES FY 1982-FY 1983

	Current Plan FY 1982	Estimate FY 1983	Difference FY 1983/82
Data Processing Equipment	$806,000	$1,150,000	$ 344,000
Mini computer and peripheral hardware	(350,000)	(450,000)	(100,000)
Expansion of system and workstations	(456,000)	(400,000)	(-56,000)
Communication equipment	(-0-)	(300,000)	(300,000)
Administrative Services Equipment	268,000	268,000	-0-
Office equipment	(228,000)	(228,000)	(-0-)
Reference books for permanent collection	(35,000)	(35,000)	(-0-)
Health services equipment	(5,000)	(5,000)	(-0-)
Total, Equipment	1,074,000	1,418,000	344,000

FACILITIES VS RESEARCH GRANTS TO INDIVIDUALS

Question: How much of your FY 82 and FY 83 budget is devoted to the support of facilities or laboratories and how much for research grants to individuals?

Answer: NSF expects to obligate about $11.0 million in FY 1982 and approximately $24.1 million in FY 1983 for support of research facilities (i.e., land, buildings, and fixed equipment and major equipment). Support of research grants is estimated to total about $761.7 million in FY 1982 and $828.0 million in FY 1983. Thus, about 1.1 percent of overall NSF obligations in FY 1972 (totaling $1,035.1 million) and some 2.2 percent of FY 1983 obligations, totaling $1,073.8 million, will be for support of research facilities, and approximately 73.6 percent in FY 1982 and 77.2 percent in FY 1983 will be for research grant awards. A breakout by major program activity is shown by the following table.

(In Millions of Dollars)

Program Activity	Estimate FY 1982			Estimate FY 1983		
	* Facil. & Major Equip.	Research Grants	Total	* Facil. & Major Equip.	Research Grants	Total
Math & Physical Sciences	$6.0	$272.9	$278.9	$15.3	$298.7	$314.0
Engineering............	.6	91.7	92.3	1.3	99.4	100.7
Biological, Behavioral, and Social Sciences...	.0	176.0	176.0	.0	186.7	186.7
Astronomical, Atmospheric Earth & Ocean Sciences	2.1	168.7	170.8	1.7	184.7	186.4
Ocean Drilling Programs.	.0	.0	.0	.0	.0	.0
U.S. Antarctic Program..	2.3	7.5	9.8	5.8	9.0	14.8
Scientific, Technological and Internatl Affairs.	.0	40.3	40.3	.0	44.0	44.0
Minority Institution Sci Improvement Program...	.0	.0	.0	.0	3.3	3.3
Special Foreign Currency.	.0	4.6	4.6	.0	2.2	2.2
Total, NSF:						
Amount...........	$11.0	$761.7	$772.7	$24.1	$828.0	$852.1
Percent of Total Obligations.......	1.1%	73.6%	74.7%	2.2%	77.2%	79.4%

* DEFINITIONS

Definitions of the various categories of non-expendable R&D items (facilities) supported by NSF are as follows:

- Land, Buildings, and Fixed Equipment--Acquisition, construction, rehabilitation, addition to, or improvement of real property assets, such as land, buildings, or other structures, and fixed equipment. "Fixed equipment" means equipment that is part of the building, such as elevators, plumbing, lighting and heating systems, air conditioning systems, fire alarm systems, and the like.

- Major Equipment--Applies to a relatively limited number of specific items of specialized R&D equipment, such as accelerators, telescopes, research ships, aircraft, and the like.

ROBOTICS

Question: How much money and how many grants do you expect to devote to Robotics in FY'82 and FY'83?

Answer: In FY'81 47 awards were made totaling $5,043,000. In FY'82 we expect to award 50 grants totaling $5,350,000 and in FY'83 we anticipate the granting of 55 awards totaling $6,000,000.

Question: What activities will you support in the related area of Pattern Recognition?

Answer: The research areas of Pattern Recognition, Image and Scene Analysis, and Image Reconstruction deal primarily with the mathematical and engineering techniques that have to be understood to advance methods for machine pattern analysis and processing. Fundamental knowledge of primitives and the effects of various processing functions; research in the theory of shape, texture, edges and contours, color, and motion; the analysis and description of three dimension scenes; digital picture rotation, image matching, and the treatment of context are a few of the specific areas of needed investigation. Advanced sensor technology for improved data and image acquisition as well as image reconstruction, feature extraction, and display are in the forefront of this research area.

AN ALTERNATE FUNDING MECHANISM

Question: In a March 27, 1981, editorial in Science, Mr. Rustum Roy described an alternative method of allocating funds to universities. Could you please comment on this editorial?

Answer: Professor Roy's proposal proceeds from his view that the peer review system used (in varying forms) by Federal research-support agencies to provide scientific accountability is complex and wastes the time and creativity of the research community. He proposes that this system be replaced by one in which Federal funds would be allocated according to a formula which relates dollar amounts to four measures of "productivity:" (1) number of degrees awarded (2) number of papers published (3) amount of support from mission agencies (4) amount of support from industry.

The peer review mechanisms which the research community has developed over the past several centuries to assure that only the fittest scientific ideas survive are indeed often complex in application, though simple in concept. The processes used by Federal agencies to select the best from among many worthy opportunities for public investment in research are only part of the total peer review system. Few researchers would deny that these processes place a considerable burden on the research community. The processes require the participation of many of the community's most talented members in difficult selection procedures demanding skilled professional judgment, applied to carefully crafted proposals which themselves represent substantial investments of intellectual effort. The lifting of this burden through replacement of the present systems by some simple formula which could be administered by clerks is an attractive notion, at first sight. However, the scheme proposed by Professor Roy prompts many questions and comments, among them the following.

Might the dependence of support on number of degrees awarded induce universities to emphasize quantity of students rather than quality, or provide an incentive for them to encourage students to enter fields oversupplied with graduates? Might the dependence of support on number of papers published nourish the worst aspects of the "publish or perish" syndrome? Professor Roy does specify "papers published in refereed journals," but this quality sieve may be inadequate in today's highly competitive funding environment. Should increased support from mission agencies or industry automatically be accompanied by an increase in support from all Federal sources? For the National Science Foundation, with its legislatively defined mission to assure the vitality of research in all the sciences and engineering, a *decrease* in other-agency or industry interest in a particular field often indicates an *increase* in Foundation support, in order to maintain an appropriate National balance across the research spectrum, and *vice versa*.

Professor Roy leaves unspecified the relative weights to be given his productivity measures as well as the overall scale of their relation to funding level. These are embodied in the coefficients in his formula. A little reflection shows that these coefficients must depend strongly on scientific field or subfield. Some fields attract substantial mission agency or industry support, some little. "Normal" publication rates vary among fields. Some fields produce few graduates, others many. Some fields are intrinsically much more expensive than others. We see that the formula would need to be carefully tailored to the characteristics of each field or subfield. If one notes that the formula is to be applied to a "university department or similar-size research unit," and observes that no two departments or research units present the same mix of fields and subfields, one sees that the formula might have to be tailored to each individual application. That is, every funding action might have to be based on a different formula. One must conclude that the superficial simplicity of the formula masks a very substantial complexity in application.

The restriction of the formula to department-size units has another questionable feature: it locks support level to the *average* "productivity" of a large group of researchers. While present support mechanisms do allow support of such groups where quality and objectives warrant, they also provide for support of individuals, thus emphasizing support of the best, not the average.

Such questions suggest that it is by no means evident that Professor Roy's formula could be used as the basis for allocation of Federal funds to university researchers without unacceptable costs in quality. Nor is it evident, in light of the need for adjusting the formula for every application, as well as the need for some peer review to monitor its effectiveness, that it would necessarily lighten the burden on the research community. We are inclined to believe that for the difficult but necessary task of selecting the best research we can afford, a formula mechanism is no substitute for informed scientific judgment applied directly to the task. Repeated past studies of the peer review system suggest that, whatever the flaws of the system may be, this view is generally shared by the research community.

Queston: Has NSF seriously considered alternate funding mechanisms and if so, which ones?

Answer: Over the years NSF has given much consideration to the use of alternative funding mechanisms and has initiatd, developed and used a number of different approaches. In addition to staff initiatives in this area the NSB and the NSF Advisory Council specifically address this subject from time to time.

In addition to the standard research project grant NSF has on occasion in various program areas utilized other methods of support. NSF has used institutional support grants, science development grants, coherent area grants, departmental grants, group grants, etc. Some awards and amounts have been based on a formula approach. NSF also makes grants for specialized facilities, research equipment, and instrumentation.

During the last several years NSF has been testing and experimenting with several new concepts involving the project grant. The "Special Creativity Extension" is an experimental mechanism that allows a program officer to recommend the extension of certain research grants, where the research accomplishments have been especially creative, without the need for a new proposal or additional peer reviews.

The NSF-AAU grant administration experiment tests a reclarification of the grant relationship by delegating most prior approval requirements to the grantee; by allowing greater flexibility in project start and completion dates; and by authorizing grantees to make decisions that individual projects are scientifically or technically related, and permitting them to allocate resources among related projects.

While most grants are traditionally on a cost-reimbursement basis with a ceiling, grants can also be awarded on a fixed amount basis. NSF has been using "fixed amount" awards under Phase I of our Small Business Innovative Research Program. This year NSF has introduced this concept in two additional program areas: History and Philosophy of Science, and New Engineering Faculty Research Incentives. Such fixed amount awards represent a predetermined amount for NSF support of the activity without regard to the subsequent costs of the project. Unlike cost reimbursement type grants, these grants are not subject to various cost principles such as OMB Circular A-21. These types of awards may help reduce some of the administrative burden and record keeping requirements for both grantees and the agency without a loss in accountability. While there is no review of the actual costs subsequently incurred by the grantee, there typically is a requirement for the grantee to certify that the level of effort called for in the award was performed. Accountability will be primarily based on technical performance and results as opposed to financial accounting and fiscal reports.

RISK ANALYSIS

Question: What role do you see for NSF in the development of risk analysis procedures?

Answer: The primary objective of the Risk Analysis program is to support methodological research that can contribute to society's ability to respond effectively and appropriately to problems involving technological risks to health, safety, or environment. The activities of the Risk Aralaysis program are based on conceptualization of risk analysis that distinguishes two separate, but related, sets of processes. The first set involves scientific activities leading to estimates of the levels of risk associated with specific technological hazards. For the most part, these activities are outside the scope of the Risk Analysis program. The second set of processes leads to individual and societal decisions about whether such risks are acceptable and how best to manage them. It is this second set of activities that is the primary focus of Risk Analysis program activities.

The program supports research related to ten questions that are generic to risk analysis procedures and management:

(1) How do we determine how safe is safe enough?
(2) How good are the knowledge base and methods for estimating the risk associated with different technologies?
(3) How are estimates of risk incorporated into decisionmaking?
(4) How do decisionmakers treat uncertainties associated with different risks and hazards?
(5) How do features of the institutional context affect decisionmaking bodies concerned with risk and uncertainty?
(6) What factors influence individual perceptions of risk?
(7) How are perceptions of risk and benefit incorporated into public policies?
(8) How does society cope with risks that are unacceptable to some segments of the population?
(9) How are normative considerations such as equity and social justice balanced in decisionmaking about risk?
(10) What are the criteria for comparing and evaluating different risk management policies?

IMPACT OF H.R. 3441 ON NSF

Question: What impact would the passage of H.R. 3441 have on your FY 1983 priorities?

Answer: H.R. 3441 mandates the National Science Foundation to do the following:

> "...the National Science Foundation, on the basis of work done by the National Academy of Sciences and other individuals and institutions both inside and outside the Federal Government, shall recommend to the Director (of OSTP) a program of research directed at strengthening the basic and applied sciences required to support Federal agencies in utilizing risk analysis methods in regulatory decisionmaking. Such program shall include--(1

> research on new and improved methods for gathering data; (2 research on new and improved methodologies for analyzing and utilizing such data; and (3 research on the role of comparative risk analysis in regulartory decisionmaking."

The responsibilities for fulfillment of this mandate to the National Science Foundation would likely be assigned to the Technology Assessment and Risk Analysis program in the STIA Directorate. Because of budgetary stringencies, it would be difficult for the National Science Foundation to respond immediately and substantially to this request.

SUPPORT OF BASIC RESEARCH IN ENVIRONMENTAL SCIENCES

Question: What is the percent and amount of the FY 81, FY 82 and FY 83 total Federal funding for Basic Research in Environmental Sciences supported through NSF? What is the percent and amount supported by EPA?

Answer: In FY 1981, the National Science Foundation supported 54 percent of the total Federal support of basic research in the environmental science and the Environmental Protection Agency supported approximately six-tenths of one percent. In FY 1982, NSF supported 49 percent and EPA supported approximately three-tenths of one percent.

While the FY 1983 estimates for the total Federal support and EPA support are not currently available, it is expected that the NSF's share of total support will increase compared to FY 1982 and EPA decrease.

FULL-TIME EQUIVALENT EMPLOYMENT

Question: Your FTEE level in FY 1983 will be reduced from 1,301 in FY 1982 to 1,238 in FY 1983. How will this reduction be accomplished?

Answer: The number of full-time equivalents (FTE) for the Foundation will decrease by 63 from the FY 1982 total of 1,301 to give an FY 1983 FTE staffing level of 1,238. This is the result of program changes, including the discontinuation of all Science and Engineering Education (SEE) programs except graduate fellowships, and a lower approved staffing level. While all activities will be affected, about half of the proposed reduction -- 34 FTE -- will take place in the SEE activity. The proposed reduction will be carried out through a combination of reassignment of staff to active program areas, by normal attrition, by selected discontinued service retirements, by involuntary separations and control of filling vacant positions.

DETERMINATION OF FY 1983 REDUCTION

Question: Were you given a specific dollar figure to meet in arriving at your FY 1983 budget? How did your initial request to OMB compare to the current request? Did OMB give you any guidance relative to the specific allocation of funds within your total budget -- for example did they recommend the reductions in Science Education or Biological and Behavioral Sciences as they did last year? How much leeway did you have to modify their specific recommendations? Could you present, for the record, a table by activity of OMB's recommendations compared to the current budget?

Answer: The budget process always involves a series of negotiated levels with OMB. FY 1983 was no exception. At different stages of development, there were different 'target' numbers involved in our discussions with OMB.

In the Spring of 1981, the National Science Board arrived at an initial budget estimate for FY 1983 which we used as the upper limit for our first "agency" request in September 1981. The total was about $1,270.

Discussions with OMB involved a 'give and take' between NSF and OMB from the summer of 1981 until late December when the final budget was prepared. The general views of OMB on SE&E were known to NSF and were demonstrated in the Revised Budget submitted last March. The estimates developed between June, 1981, and December 1981, took this general policy framework into account---though the actual numbers varied at different times.

No reductions in BBS were recommended by OMB, in the specific sense of the word implied by the question. In fact, the increases for social and behavioral sciences in the FY 1982 current plan and in the FY 1983 budget request were included with the approval of the OMB.

As indicated above, OMB did not provide specific detailed recommendations, but estimates for activities and some programs were arrived at through negotiations between OMB and NSF within overall totals determined by OMB.

EXTENSION FOR CREATIVITY

Question: Last summer you announced an experimental program that would allow an NSF program officer to recommend the extension of certain research grants beyond the initial period for which the grant was awarded. The objective of the extension was to offer the most creative scientists increased opportunity to attack adventurous "High Risk" research questions. How may grants have been selected for this two year extension? Have you been able to determine the actual, or potential, benefits of this program?
What are the expected costs of this program in FY 82 and FY 83?

Answer: A total of 39 grants with an average annual rate under $200,000 has been selected for the special creativity extension; 34 from the Mathematical and Physical Sciences Activity, two from the Astronomical, Atmospheric, Earth and Ocean Sciences Activity, two from the Biological, Behaviorial and Social Sciences Activity, and one from the Engineering Activity.

The Foundation plans to formally evaluate the merits of the experimental mechanism during 1983, at which time the actual benefits will be determined.

As indicated in the first part of the answer, the grants selected for extension have been awarded in programs in four different activities. These awards have not been grouped into a single identifiable program nor have funds been specifically budgeted for them. In all probability the extensions would have been made through the normal review process if they had not been selected for the special creativity experiment. By eliminating the review process, there has been actual saving in the costs of making the extensions.

CHALLENGES FACING NSF

Question: In your budget justification you list 5 challenges for the 1980's, they are:

- Improving the state of the scientific and engineering research instrumentation base;
- Exploring and developing new links between academic institutions and private industry;
- Reducing shortages of faculty in such fields as computer science and parts of engineering;
- Expanding the personnel resources for science by attracting members of groups underrepresented in scientific and engineering research careers; and
- Improving the quality of primary and secondary education in mathematics and the physical sciences.

What actions do you intend to take in order to address these issues and how are those actions reflected in your FY 83 budget request?

Answer: The Foundation proposes to take the following steps in FY 1983:

- Improving the Instrumentation Base: This problem is to be addressed through the budget of each program. This permits maximum flexibility by allowing each discipline to respond to its own needs and priorities. The budget request contains estimated obligations of $109.2 million for instrumentation, research facilities, and equipment. Within this total, major equipment and other instrumentation will equal $103.4 million, an increase of 19.7 percent over the estimated total of $86.4 million for FY 1982.
- Industry/University Cooperation: The Foundation's role in this area is primarily a catalytic one, drawing attention to the opportunities and needs, encouraging industry and universities to explore their mutual interests. The budget request

provides support for the establishment of an additional Industry/University cooperative research center, bringing to six the total initiated by NSF since the early 70's. In addition, $6.0 million will be provided in FY 1983 for the industry/university cooperative research program. Coupled with matching funds from the other research programs, the total planned for FY 1983 will equal $12.0 million.

° Reducing Faculty Shortages: In general, this problem will sort itself out, over time, as universities adjust salary levels to make them more competetive with industry. The attractiveness of an academic career is affected by other important factors, in addition to salary. Most importantly are the research opportunities available. The Foundation has placed a high priority on expanding support of research in computer science and in computer, electrical and systems engineering in its FY 1983 budget request. This, coupled with the emphasis on research instrumentation, should contribute significantly to research opportunities in these fields.

° Expanding Personnel Resources: The minority graduate fellowship program will support about 50 new and 90 continuing awards in FY 1983. The Minority Research Initiation program will be increased by 47 percent to $2.5 million. This program supports research by minority faculty members at any academic institution. Initiated in FY 1982 in response to Executive Order 12320, the Research Improvement in Minority Institutions program will by increased to a total of $2.0 million in FY 1983. Finally, the Visiting Professorships for Women program will be doubled to $1.0 million.

° Improving Primary and Secondary Education in Mathematics and Science: The Foundation's primary responsibilities lie in graduate education and training in research, which it supports through fellowships, stipends in research awards and by monitoring and evaluating personnel trends and the status of science and engineering graduate education. In primary and secondary education it can play an important role by helping to identify critical needs and by encouraging scientific and professional societies, academic institutions, state and local governments, private industry, and other Federal agencies to meet these challenges.

The potential significance of this latter role is underlined by the establishment of the National Science Board Commission on Precollege Education in FY 1982 and its continuation in FY 1983. One of the most significant steps taken by the NSF in science and engineering education in the last decade, this Commission is defining a national agenda for improving mathematics and science education in secondary schools and developing an action plan that will include a definition of the appropriate roles of federal, state and local governments, professional and scientific societies, and the private sector in addressing this agenda.

INTEGRATION OF BASIC AND APPLIED RESEARCH

Question: Last year the Foundation combined its applied and basic research programs. We would like to continue to track the applied program -- so please provide a funding summary, by directorate and program, in such a manner that applied and basic research are shown separately.

Answer: The distribution of applied and basic research support by division and program for FY 1981, FY 1982, and FY 1983 is estimated to be as shown in the following table.

(In Millions of Dollars)

Program Activity	Actual FY 1981		Estimate FY 1982		Estimate FY 1983	
	Basic Research	Applied Research	Basic Research	Applied Research	Basic Research	Applied Research
Mathematical & Physical Sciences..............	$250.0	$1.6	$264.7	$2.3	$280.8	$2.7
Engineering.............	68.3	17.1	74.4	17.0	80.1	18.3
Biological, Behavioral, and Social Sciences...	174.0	11.6	168.4	7.6	179.2	7.5
Astronomical,Atmospheric Earth & Ocean Sciences	232.7	.8	236.9	.9	257.0	1.0
Ocean Drilling Programs.	22.0	.0	20.0	.0	14.0	.0
U.S. Antarctic Program..	61.5	.0	63.8	.0	80.6	.0
Scientific,Technological and Internatl Affairs.	28.8	19.6	21.2	14.7	24.5	14.4
Science & Enginering Education.............	2.3	2.4	.0	.0	.0	.0
Special Foreign Currency	2.6	1.0	3.0	1.2	1.4	.6
Program Development and Management........	54.4	4.8	58.4	5.1	58.0	5.0
Total, NSF.	$896.6	$58.9	$910.8	$48.8	$975.6	$49.5

PROGRAMMATIC INCREASES

Question: Please provide a description of each program or activity that is slated to be increased by $1 million or more over its adjusted FY 82 base. Also provide a rationale for the increase.

Answer:

NATIONAL SCIENCE FOUNDATION
FY 1983/FY 1982 Program Increases of at Least $1 Million
(Dollars in Millions)

Program	FY 1982 Current Plan	FY 1983 Request	Increase 1983/82	Rationale
(1) Mathematical Sciences Special Projects	$ 5.60	$ 6.60	$ 1.00	(1) Establishment of Math. Research Institutes.
(2) Computer Research Coord. Experimental Research	8.45	11.25	2.80	(2) Support for modern experimental facilities at academic institutions.
(3) Physics				(3) Improvement of Cornell Electron Storage Ring and increases for university-based user groups, installation of a "Cooler" ring at the Indiana Univ. Cyclotron.
Elem. Particle Physics	26.20	28.40	2.20	
Intermediate Energy Physics	13.00	14.20	1.20	
(4) Chemistry				(4) Increased support for instrumentation and research on new catalysts.
Structural Chemistry and Thermodynamics	12.20	13.30	1.10	
Chemical Dynamics	11.90	13.00	1.10	

NATIONAL SCIENCE FOUNDATION
FY 1983/FY 1982 Program Increases of at Least $1 Million
(Dollars in Millions)

Program	FY 1982 Current Plan	FY 1983 Request	Increase 1983/82	Rationale
(5) Materials Research				(5) Enhancement of central MRL facilities and major instrumentation.
Materials Research Laboratories	22.50	24.20	1.70	
(6) Environmental Biology				(6) Increased award size and duration of large integrated ecosystems projects.
Ecosystem Research	14.60	15.60	1.00	
(7) Astronomical Observatories				(7) To meet increased operational costs at the centers.
Kitt Peak & Cerro Tololo Scient. Res. Support	16.972	18.155	1.183	
Nat'l. Radio Astronomy Observatory Scient. Res. Support	14.545	15.555	1.010	
(8) National Center for Atmospheric Research				(8) Supports resumption of 1 case/purchase payments for NCAR Computer.
Scientific Computing	5.350	7.544	2.194	
(9) Earth Sciences				(9) Increased support for geochemical instrumentation and research on the structure of the continental crust.
Experimental & Theore. Geochemistry	4.00	5.50	1.50	

NATIONAL SCIENCE FOUNDATION
FY 1983/FY 1982 Program Increases of at Least $1 Million
(Dollars in Millions)

Program	FY 1982 Current Plan	FY 1983 Request	Increase 1983/82	Rationale
(10) Ocean Sciences				(10) Supports research emphasis; and a new field program; upgrading of ships and shipboard equipment; upgrading of selected ships to increase their lifetime.
Biolog. Oceanography	10.70	11.80	1.10	
Oceanographic Facil. & Support Operations	24.00	25.00	1.00	
Oceano. Tech. Prog.	5.00	6.00	1.00	
(11) U.S. Antarctic Program				(11) Supports equipment procurement, upgrading and maintenance of facilities previously deferred; NSF assumes budgetary responsibility for icebreakers from U.S. Coast Guard.
Operat. & Support Prog.				
Base Level Support	39.442	41.30	1.856	
Major Const. & Procure.	8.598	12.60	3.642	
Transfer Responsibility for Icebreaker Support	-	13.40	13.40	
(12) Research Improve. in Minority Institutions	0.5	2.0	1.50	(12) Responds to President's Executive Order 12320.

NSF AUTHORIZING LEGISLATION

Question: Could you bring us up to date on the action of your authorizing committees relative to FY 83?

Answer: As of May 13, 1982, the following table illustrates the action taken by authorizing committees of both the House and Senate regarding the NSF fiscal year 1983 authorization.

STATUS OF FY 1983 NSF BUDGET REQUEST
(In Millions)

	FY 81 Actual	FY 82 Current Plan	Admin. Request	House Auth. Action A/	Senate Auth. Action B/	Senate Auth. Action C/	Final Sen.Auth. Action	Conf. Action	House Approp. Action	Senate Approp. Action	Conf. Approp. Action
MPS	256.5	272.9	298.7	288.3	298.7	298.7					
ENG	86.3	92.0	99.7	98.6 D/	99.7 D/	99.7					
BBS	185.6	176.0	186.7	201.0 F/	191.7 F/	191.7 F/					
AAEO	236.3	240.0	259.7	250.8	259.7	259.7					
OSOD	22.0	20.0	14.0	14.0	14.0	14.0					
USAP	67.5	66.0	86.4	86.4	86.4	86.4					
STIA	53.8	40.3	44.0	50.1 E,G/	44.0	54.0 I/					
MISIP H/	(5.0)	(4.8)	(3.3)	(3.3)	(3.3)	(3.3)					
PD&M	59.2	63.5	63.1	63.1	63.1	63.1					
TOTAL RESEARCH AND RELATED ACTIVITIES	967.1	970.7	1052.3	1052.3	1057.3	1067.3					
SEE	70.7	20.9	15.0	45.0	25.0	20.0					
SFC	5.0	4.6	2.2	2.2	2.2	2.2					
TOTAL NSF	1,022.4	996.2	1,069.5	1,099.5	1,084.5	1089.5					

A/ Bill reported by House Science and Technology Committee on April 1, 1982 (H.R. 5842).
B/ Bill reported by Senate Labor and Human Resources Committee on April 27, 1982 (S. [illegible]9).
C/ Bill reported by Senate Commerce, Science, and Transportation Committee on May 11, 1982.
D/ Handicapped: $2 million set-aside for research to aid the handicapped.
E/ NROG: $3 million set-aside for National Research Opportunity Grant.
F/ BBS: The increase in BBS is targeted to behavioral and social sciences.
G/ IIASA: Funds for IIASA prohibited pending Presidential determination of national security interests.
H/ MISIP: Funds for MISIP dependent upon disestablishment of the Department of Education.
I/ STIA: $10 million added for a total program level of $16 million for Industry/University cooperative project activities.

SUPPLY OF ACADEMIC SCIENTISTS

Question: One of the serious science problems facing this country is the loss of scientists and engineers from our institutes of higher learning. For instance the percent of recent doctorates in full-time faculty positions declined from 39% in 1969, to 28% in 1974 to 21% in 1980.

What role do you believe NSF can play in addressing this problem? In your opinion, what role should the Federal government play in addressing this problem? What specifically can NSF do?

Answer: The problem is real and complicated. Problems in science and engineering departments are causing concern about the capacity of the U.S. educational system to provide an adequate science and technology education and to perform high quality research.

A frequently expressed concern is: What effect will the personnel shortages and the problems in science and engineering departments have on U.S. technological innovation, international competitiveness, and eventually, on national security?

Difficulties involved in addressing this issue include the fact that time lags are involved in attempting to produce information about personnel and institutional issues and options, and to decide on and implement remedial measures to produce the number and quality of personnel to meet shifting national goals and market demands.

The National Science Foundation is monitoring the situation and attempting to provide better information and analysis of options to address the problem.

The Foundation currently supports several programs to address the problem of maintaining quality engineering education and research. These include:

- Engineering Research Initiation Grants seek to provide opportunities in engineering research to new full-time engineering faculty members who have had no prior substantial research support.

- Engineering Specialized Research Equipment Grants are intended to improve the quality or broaden the scope of engineering research. Such grants can affect the incentives for engineers to stay in universities.

- The New Engineering Faculty Research Incentive (NEFRI) Program is designed to provide incentives to attract highly qualified engineers to academic positions through funding potential engineering faculty members engaged in research normally supported by the Division of Electrical, Computer, and Systems Engineering.

The Foundation is also in the process of examining other options to address the problem of maintaining quality engineering education and research, for example, career development awards and engineering fellowships.

INTERNATIONAL INSTITUTE FOR APPLIED SYSTEMS ANALYSIS

Question: On March 5, I received a letter from the President of the National Academy of Sciences, Mr. Frank Press, on IIASA. In that letter, Mr. Press states "... the Academy remains convinced that the best interests of the United States would be served by our continued participation in IIASA." What is your position on this issue?

The letter further states "... continued U.S. participation in IIASA is not inconsistent with national security." Do you agree with this conclusion?

Last year, in response to my question on the scientific and technical value of the Institute, you said that the latest NSF assessment "attested to the high quality of the professional staff and the scientific work carried out at IIASA." Do you still believe this to be the case?

Answer: On April 30, 1982, the National Academy of Sciences formally notified the International Institute for Applied Systems Analysis (IIASA) of its decision to terminate NAS membership on December 31, 1982. This decision of the Academy followed a Presidential determination that it was inappropriate to proceed with further funding of U.S. membership in IIASA. The Presidential determination also ended discussion of several aspects of the National interest connected with U.S. participation in the Institute.

PUBLIC SCHOOL EDUCATION

Question: An underlying issue behind the current shortage of skilled scientific and engineering personnel is the declining emphasis on mathematics and physical science teaching in the Nation's elementary and secondary schools. This situation is in stark contrast to other industrialized countries. According to a 1981 survey, 22% of high school mathematics teaching positions nationwide were vacant. Officials in 16 states characterized the situation as "critical." The nationwide trend toward reduced high school enrollments in mathematics and science has been coupled with less stringent graduation requirements in these fields. In response, college admission requirements in science and mathematics have been reduced.

What role do you see for NSF in the area of elementary and secondary school education?

In addition to your Special Commission on Precollege Education in Mathematics, Science and Technology, what are you doing to fulfill your stated role?

Last week, in your letter to the Committee, you stated that it was your personal conviction that establishing the Special Commission and using the plan developed by that Commission will be the "most important task" you will undertake as Director of NSF.

Why do you place so much importance on the work of the Commission?

Answer: In August 1981, the National Science Board issued a statement outlining from a policy perspective what NSF's role should be in science and engineering education at all levels. At the elementary and secondary school level, this statement indicated that NSF should invest in a limited number of high-leverage projects. It should also establish a leadership position and, through monitoring the U.S. (and world) educational picture, provide advice to states and localities on ways to meet the ever-increasing range of problems at those levels.

As a means both of providing leadership and developing a much-needed consensus on how to address the science education problems in the U.S., the National Science Board established a Commission on Precollege Education in Science, Mathematics and Technology. Until this Commission makes its recommendations, the NSF's role will be limited to the leadership and liaison activities mentioned above.

The Foundation places so much importance on the work of the Commission because the indicators of deterioration in the quality and quantity of education in mathematics, science and technology are overwhelming. There are steadily declining percentages of students taking science and mathematics courses in high school. There are declining levels of achievement as evidenced by steadily lower scores on standardized national tests. And there is a significant increase in remedial mathematics courses needed by undergraduate science and engineering students.

Currently, our technical workforce and our recruits in the military are illprepared in mathematical, scientific and technical skills contrasted with our vigorous trading competitors, Japan and West Germany, and with the U.S.S.R. and other eastern block countries.

While our scientific and engineering research community has remained strong, the decline in precollege science and mathematics teaching will cause severe problems in this personnel sector in the next ten years. Consequently, our advantage in high technology areas that are continuously created by our scientific acumen will be lost.

Over the next 20 years as the Nation experiences a 25% reduction in the number of young people moving into the job market, minorities and women will make up a greater percentage of these new workers. But the current evidence indicates these groups in particular are underrepresented in the scientific and technical careers and are not as well prepared in the mathematics and the physical sciences which are requisite for these careers.

The Foundation views this Commission as the primary instrument for raising the Nation's awareness on the severity of the problem, for developing strategies leading to effective remedies and for summoning forth the national will to act in a concerted and sustained manner to reverse the damaging trends now in evidence. We see the Commission as the focal point in defining a national agenda for improving mathematics and science education in this country over the next ten years.

NUMBER OF GRADUATE STUDENTS SUPPORTED

Question: In addition to your Graduate Fellowship program, NSF Grant funds provide for a large number of graduate students? How many students do you expect will be supported in FY 1982 and FY 1983?

Answer: It is anticipated that NSF research grant funds will support approximately 8,900 graduate research assistants in FY 1982 and approximately 9,000 in FY 1983.

COUNCIL FOR CHEMICAL RESEARCH

Question: Recently several major chemical makers have announced the formation of the Council for Chemical Research (CCR) a new organization with the primary function of boosting industrial financial support for basic research conducted on campus in chemistry and chemical engineering departments. It is estimated that a potential commitment of $8 million to $10 million per year is possible under this effort. Are you aware of any other organizations or societies that are developing similar plans? How does NSF intend to interact with these types of programs and how were they considered when you developed your future budget requests?

Answer: The Semiconductor Industry Association is planning a non-profit subsidary, the Semiconductor Research Cooperative, the intent of which is to encourage increased efforts by manufacturers and universities in long-term semiconductor research, and to add to the supply and quality of degreed professionals in the field. (Note that the SRC will probably not fund university departments according to a formula as is proposed by the CCR. The SRC proposes to target both research objectives and specific university departments.)

The American Electronics Association has recently analyzed the national engineering shortage problem and proposes that their members donate 2% of the research budgets against very specific targets to alleviate the problem. If this proposal is implemented there is a potential of more than $50 million being made available to electrical engineering departments.

A significant development is documented by a recent survey conducted by the National Governors' Association. The survey of all fifty states looked for programs to spur technological innovation and productivity growth. At least 88 separate initiatives were found to be under way with state leadership with many involving public-private, and corporate-academic partnerships. To give some examples, several states including North Carolina, New York, California, and others have made long term commitments of large sums to develop academically connected R&D centers in microelectronics with extensive corporate participation. In Michigan a flexible factory automation research center is planned. Arizona has announced a major expansion of university engineering research and education with heavy corporate support.

NSF, through appropriate officials and program officers, is in contact with the industrial organziations concerned with industry/university research cooperation. In particular, we share their concerns for the fundamental science and engineering research needs of industry as a base for future technological innovation. NSF includes these concerns in its planning and budgetary process to arrive at program objectives and budgets which intend to fulfill Federal responsibility in substaining and creating the science needs of the country.

As a particular example, NSF officials encouraged and assisted chemical industry officials and university officials in the organizational planning and founding of the CCR. This fall, CCR will extend invitations to appropriate NSF officials to attend the first annual CCR conference to participate in discussions about the fundamental research requirement in chemistry and chemical engineering that will contribute to future technological innovation in the chemical industry.

With such industrial research foundations, NSF will seek cooperative concern and effort to maintain the U.S. fundamental-research capability in close coordination with the U.S. technological-innovation capability in terms of research programs, facilities, manpower, education, and funding.

ANALYSIS OF FEDERAL RESEARCH BUDGET

Question: On March 11 you prepared a brief analysis of the Federal research budget for FY 83.

This report notes that DOD has initiated a Graduate Fellowship Program. This program is expected to result in about 150 graduate fellowship awards in FY 83. You also note that the Department of Agriculture has budgeted $8.8 million to start a new program designed to improve the research capabilities of historically Black institutions.

I don't see any evidence that these non-NSF initiatives were taken into consideration during the development of your FY 83 budget --am I mistaken?

Furthermore, DOD expects to expand its ROTC scholarship program from 21,000 students in FY 82 to about 26,000 in FY 83.

Do you see these kind of agency programs becoming a pattern in the future and if so, don't you believe that some agency, such as NSF should take the lead in coordinating these efforts governmentwide?

Based on this preliminary analyses, what is your expectation as to the additional grant applications that might be submitted to NSF as a result of the reduction of R&D in other agencies?

Answer: In the development of the Foundation's FY 1983 budget, we have made every attempt to coordinate our programs with those of other Federal agencies. NSF program managers are involved in formal and informal mechanisms for carrying out this coordination. We believe that our coordination mechanisms have worked well and we will continue to maintain them.

We are not able to make an estimate at this time of the probable effect on NSF of R&D actions in other Federal agencies. We will continue discussions with the program and budget staffs of other agencies concerning proposed increases, reductions, and terminations that have some bearing on NSF.

QUESTION SUBMITTED BY SENATOR LEAHY

FELLOWSHIP STIPEND LEVEL

Question: The fiscal 1983 budget request for Science Education would fund only fellowships. It is my understanding that these fellowships offer significantly lower stipends than those in private industry, as well as some of those offered by other federal agencies, such as the Department of Defense. Do you think that this disparity will affect your ability to attract the most qualified and promising applicants? If some additional funds were provided, would you consider increasing stipends to be more competitive with those offered by other agencies or by other sectors?

Answer: In general, the other fellowships programs to which this question makes reference are highly field-specific. In those specific fields, there is no doubt that the existence of other support opportunities that offer significantly higher stipends than NSF compromises the ability of the Foundation to attract the most qualified applicants and to retain the most highly qualified awardees who have alternative support possibilities. NSF awards do, however, have additional features, such as portability and the flexibility of spreading three years of NSF support over five years, that to some extent mitigate this competitive gap.

If some additional funds were provided, NSF's first priority would be to consider increases in the stipend and cost-of-education allowance levels. Such increases would have a higher priority than increasing the number of awards.

QUESTIONS SUBMITTED BY SENATOR WEICKER

PRODUCTS/COSTS/BENEFITS FROM NSF GRANTS

Question: What are some of the products from previous NSF involvement in science and engineering education and their associated costs? What benefits (long- and short-term) are derived from these products?

Answer: During the period 1952-1980 the National Science Foundation obligated just over $2 billion for science and engineering education activities at all levels.

At the precollege level, the major products have been training opportunities for over half a million secondary school teachers, summer projects for nearly 125,000 talented high school students, and an extremely diverse set of curriculum materials which span all scientific disciplines and modes of curriculum development. These precollege activities account for approximately 41% of the total or about $835 million.

At the undergraduate level, the same sorts of products can be observed: training opportunities for nearly 100,000 undergraduate college faculty, summer research opportunities for 83,000 undergraduate students, and curriculum materials for use in undergraduate classrooms. Approximately 29%, or $590 million, was used for these purposes.

Finally, the NSF provided $570 million for the support of almost 18,000 graduate fellowships during the period 1952-1980.

Benefits from these investments are difficult to measure. However, the following statistics illustrate some aspects of the Nation's scientific and technical enterprise which are due in some part to NSF activities:

> A striking feature of the Nation's scientific and technical enterprise in the 1950's and 1960's was its sheer growth.
>
> - Numbers of U.S. scientists and engineers grew from about 1,000,000 in 1957 to 2,741,400 in 1978.
> - Numbers of doctoral degree holders in science and engineering fields (including social sciences) grew from under 100,000 in 1959 to 332,280 in 1979.
> - Higher education enrollments grew from about 3,000,000 in 1957 to almost 10,000,000 in 1978.
> - Public elementary and secondary school enrollments grew from about 25 million in 1950 to about 45 million in 1978.

- Approximately 10 of the 40 Westinghouse Talent Search semifinalists each year were participating in NSF Student Science Training projects.

- Eight graduate fellowship recipients have received the Nobel prize.

FUTURE LEVEL OF NSF INVOLVEMENT

Question: What level of involvement in science and engineering education should NSF have in the future? Please supply justifications for this position.

Answer: The level (and appropriate role) of involvement of the NSF in science and engineering education is currently a matter of great discussion. After a year-long study of science and engineering education at the NSF, the National Science Board issued a statement in August 1981 which reaffirmed the NSF's involvement in science and engineering education at all levels as stated in the Organic Act of the NSF. It placed top priority on the support of graduate fellowships. At the undergraduate and precollege levels, the Board determined that NSF should be involved in selected, high-leverage activities and should be involved in monitoring the continuing status of all education levels.

Since that statement was issued, the Board has established a Commission on Precollege Mathematics, Science and Technology to further delineate the various roles of all sectors and particularly that of the National Science Foundation. This Commission is expected to generate the consensus which does not now exist and which is vital to determining what the appropriate level of involvement of the Foundation should be. This Commission is expected to hold its first meeting in the summer of 1982 and to provide interim reports and recommendations at the end of six and twelve months of activity and a final report and action recommendations at the end of 18 months.

SCIENCE AND ENGINEERING EDUCATION--FEDERAL INVOLVEMENT

Question: What segments of the Federal government have been directly involved with issues dealing with science and engineering education? What segments of the Federal government will or should be involved in the future?

Answer: Just as with research and development, Federal support of science and engineering education activities can be identified in several Federal agencies. Agencies with significant science and engineering education activities include the Departments of Agriculture, Energy, and Defense, plus the National Institutes of Health, Environmental Protection Agency, and National Aeronautics and Space Agency. The Federal effort reflects a collection of individual programs and procedures, each accomplishing a specific purpose that is oriented to the mission of the particular sponsoring agency. However, NSF is the only agency with a mandate that cuts across all fields of science and engineering education.

Analysis of Federal programs unique to science and engineering education is difficult primarily because of a lack of precise and consistent definitional framework and because many programs are inextricably intermixed with and obscured by other agency programs and purposes. Various agencies of the Federal government should be involved with science and engineering education activities in the future to the extent that they can be justified by agency missions. However, attention needs to be given to coordination and overlap.

PER CAPITA EXPENDITURES

Question: In this country, how much is being spent per year and per capita by the Federal government on all aspects of basic science and engineering education in each level of education (K-12, undergraduate, and graduate)? How do these figures compare with other technologically advanced countries such as Canada, West Germany, Japan, and the U.S.S.R.?

Answer: In FY 1979 (the latest year for which data are available), NSF provided between 16% and 24% of total Federal funding (estimated between $254.2 million and $367.2 million) for science and engineering education in colleges and universities, excluding $224 million for the Cooperative Extension Service of USDA. This works out to somewhere between $1 and $1.50 per capita in that year.

This estimate does not include support to elementary and secondary schools as no estimates are available as to what proportion of Federal funds go to science and engineering education. We do know that Federal support for secondary education has been minimal. By far the largest proportion of the $6.8 billion provided in FY 1979 for elementary and secondary education has flowed to the elementary schools through state and local education agencies.

Also, about $5.0 billion of the $6.0 billion spent by the Federal government in FY 1979 for postsecondary education (excluding R&D support to colleges and universities) is for guaranteed loans and grants to students. However, it is not known what proportion of the total supports students majoring in science and engineering.

Comparisons with other nations are difficult for two reasons: (a) estimates of the level of Federal government support for science and engineering education cannot be broken out from the total for education of all kinds; and (b) state, local, and private support are dominant in the U.S., so that national comparisons should take these investments into account.

We can say that the total U.S. investment (Federal, state, local, and private) in education of all kinds is quite high by any standard or measure of comparison.

AVAILABILITY OF SCIENCE AND ENGINEERING EDUCATION MATERIALS

Question: What science and engineering education materials (e.g., text books, laboratory materials, and audio-visual and instructional aids) are available to teachers as a result of Federal and particularly NSF involvement? From what Federal or other sources are these materials made available?

Answer: During the period 1952-1980, the National Science Foundation invested between $135 and $140 million in the development of science curriculum materials. These have ranged the spectrum of disciplines: biology, chemistry, physics, earth science, mathematics, geography, etc. The materials have also ranged in form: hard and soft cover texts, laboratory exercises, films, teachers guides, and the like. The NSF does not provide funds for the purchase and distribution of these materials, but rather relies on the normal commercial publishing process for their dissemination. The choice of appropriate curriculum materials is one which rests at the local level, as does the funding of them.

Other agencies, most particularly the Department of Education, have also invested in the development of science and mathematics materials. Through the National Dissemination Network, the Department of Education provides information about available materials and also provides limited implementation assistance. Currently, NSF-developed materials are represented in the National Dissemination Network to a very limited degree, but the Department of Education plans to increase this number in the next few years.

ENCOURAGEMENT FOR ADVANCEMENT OF SCIENCE AND ENGINEERING EDUCATION

Question: One of NSF's roles is to provide tangible Federal encouragement for the advancement of the level of scientific education of our people. Is this vital role adequately represented in the FY 1983 budget request? Please provide justifications for and possible impacts of the stand on science education that the proposed budget represents.

Answer: In scientific education, the NSF gives first priority to research-level education. This is adequately represented in the FY 1983 budget request for graduate fellowships and for the funds in research grants that will support graduate students, typically as research assistants. Other support is not included as a result of tough decisions and priority-setting in a very tight budget year.

The impacts of the stand can be estimated in terms of training opportunities and other instructional improvement activities that are foregone, but we are unable to estimate how much of this might be taken up by non-Federal sources.

SCIENTIFIC PERSONNEL IMPROVEMENT PROGRAM

Question: It is stated in the justification of the Science and Engineering Education activity that the Scientific Personnel Improvement programs are:

"to identify and encourage the talented (particularly among minorities, women and the physically handicapped) to participate more fully in the study and practice of the sciences, mathematics and engineering" (page SEE-2; and to: "increase the number of minorities, women and the physically handicapped in the science and technology work force" (page SEE-I-1).

What, then, are the justifications for requesting the elimination of the Minorities, Women and Physically Handicapped program elements? Please detail how NSF will achieve its goal of more minority, women and physically handicapped participation.

Answer: In recent years, much of NSF's Science Education program had become narrowly focused, as attempts were made to meet a wide range of special needs with limited resources. A major goal of the President's Budget Reform Plan in FY 1982 was to eliminate funding for these narrowly focused programs. The Minorities, Women and the Physically Handicapped in Science program element was determined to fall in this narrowly focused category. In FY 1981, the Minorities in Science program was funded at $1.0 million, the Women in Science program at $2,0 million, and the Physically Handicapped in Science at $0.5 million. It was obvious that given the scope and needs of the minorities, women and physically handicapped these funds were insufficient to provide much more than a token approach to bring these groups into the science and engineering mainstream. In addition, it was determined that the Federal government's approach to the support of Science and Engineering Education needed to be reassessed. Thus, in April 1982 the National Science Board created the Commission on Precollege Education in Mathematics, Science and Technology.

The Foundation will achieve its goals of more minority, women and physically handicapped participation through several programs in the research directorates and by encouraging states and local governments to pick up support of initiatives started by the Foundation over the years. Some of the programs in the research directorates are: Visiting Professorships for Women, FY 1983 Request $1.0 million; Minority Research Initiation, FY 1983 Request $2.5 million; and Research Improvement in Minority Institutions, FY 1983 Request $2.0 million.

In addition, although there is no longer a focused program of Science and Technology to Aid the Handicapped, this type of research will be eligible for funding in other programs in the engineering research directorate.

SCIENCE TEACHER COMPETENCE

Question: Another objective of the Scientific Personnel Improvement Subactivity is to:

> "improve the subject matter competence of science and engineering teachers" (SEE-I-1).

How will this objective be obtained with no funds allocated for it in the FY 1983 budget?

Answer: The Scientific Personnel Improvement subactivity was disestablished on March 20, 1982. This specific objective is not one of the objectives listed for the new organization, Office of Scientific and Engineering Personnel and Education, or its component activities: Fellowships and Award Administration and Liaison. Through our leadership and liaison functions, we will continue to monitor the situation with regard to science and engineering teachers and to work with state and local agencies in manners consistent with these functions. In addition, the whole question of precollege science and mathematics teacher preparation, competency, and inservicing will be an important topic for the National Science Board Commission on Precollege Mathematics, Science and Technology to consider.

PUBLIC UNDERSTANDING OF SCIENCE

Question: The major means of maintaining our citizens scientific literacy and their ability to utilize new technology is through increased public understanding of science. Why are no funds allocated to assure this objective of the Science Education Communication Subactivity?

Answer: The National Science Board sees the primary mission of NSF in science and engineering education as addressing the human resource needs of the scientific and technological enterprise. This focuses on the production of scientists and engineers. In time of constrained resources, lower priority is given to science understanding of the general public.

The Science Education Communication subactivity was disestablished March 20, 1982. Private initiatives, such as the recent Annenberg gift to the Corporation for Public Broadcasting, are expected to carry on this important objective.

ACTION PLAN

Question: From what other NSF resources will additional funds be found in FY 1983 if needed for the National Science Board Commission on Precollege Education in Mathematics, Science and Technology? What has been the progress of this Commission to date? What does "action plan" mean?

Answer: In FY 1983 if additional funds should be needed by the Commission on Precollege Education in Mathematics, Science and Technology, they will probably be taken from the NSF Planning and Evaluation line item in the Coordinated Agency-Wide Research Activities subactivity.

The Commission was formally established in April 1982 and will have its first formal meeting in early July. To date, the Commission has been staffed and the staff has begun the immense task of gathering previous studies, preparing synthesis that have been sent to the Commissioners and in general, gathering the data, sources of information, and making contacts with the appropriate state and local leaders in precollege science and mathematics education.

The "action plan" will be a document identifying the steps to be taken to improve mathematics and science education in this country; assigning the responsibility for action to Federal, state or local governments, to professional or scientific societies or to the private sector. The "action plan" will also include a time table for their accomplishment.

COLLEGE/UNIVERSITY INCENTIVES FOR FELLOWSHIPS

Question: What incentives are provided by NSF to colleges and universities to actively assist their students in applying for NSF graduate fellowships? What benefits do colleges and universities receive by having NSF graduate fellows?

Answer: The Foundation expects students' decisions to apply for graduate fellowships to be personal ones, taken after careful consideration of their future plans. The competition is extremely competitive, and the Foundation does not encourage applicants to make such decisions lightly. Colleges and universities are important to the Foundation in publicizing the program among their students.

Tangibly, colleges and universities receive a uniform cost-of-education allowance (currently $4,000 per year) from the Foundation for each Fellow in attendance in lieu of their charging tuition and fees to Fellows. Intangibly, in view of the prestigous nature of this competition, many colleges and universities cite NSF Graduate Fellowship statistics as a mark of distinction similar to their publication of faculty honors.

FELLOWSHIPS SELECTION--INFLUENCE OF RACE

Question: Will race, creed or social status influence the awarding of NSF Graduate Fellowships? What is the process NSF will use to assure that a minimum of 10% of the graduate fellowships will go to minorities?

Answer: NSF sponsors a Minority Graduate Fellowships Program in addition to the regular Graduate Fellowships Program. Race is an eligibility criterion for the latter competition. In all other aspects of both programs, race, creed or social status are irrelevant to the selection of awardees.

Through the two competitions noted above, 10% of the funds, and thus 10% of the awards for graduate fellowships, are reserved for the Minority Graduate Fellowships competition, thus assuring a minimum of 10% of awards to minorities. Minorities do apply and are awarded fellowships in the regular competiton also. All such awards therefore increase the percentage of awards to minorities above the minimum 10%.

FEDERAL INVOLVEMENT IN SCIENCE AND ENGINEERING EDUCATION

Question: On page SEE-II-1 of the FY 1983 budget justification document the objectives and descriptions of the Science Education Resources Improvement Subactivity of the Science and Engineering Education Activity are given along with a request for no funding for this activity. How will this Nation be assured of a steady supply of highly trained scientists, engineers, and technologists without Federal support of science education? How will this Nation's citizenry maintain its literacy in scientific matters without continued Federal support of the various issues of science education? In other words, what should the involvement of the Federal government, and specifically the NSF, be in science and engineering education?

Answer: The Science Education Resources Improvement Subactivity addressed its objectives through programs for institutional improvement. The National Science Board's statement gives higher priority to programs that focus more directly on people--students and teachers--rather than institutions. Colleges and universities are experiencing financial difficulties for a variety of reasons including: declining enrollments; perceived declining value of a college education; a mismatch between the education offered and the skills needed for today's (and tomorrow's) job market; inflation coupled with sharply increasing costs for energy and instrumentation. The Federal government cannot and should not attempt to ameliorate all of these difficulties, but should focus on those areas where there is a demonstrable problem or need affecting the national interest and where there is a clear Federal role in contrast to the roles of the state, local, and private sectors.

COOPERATIVE RESEARCH

Question: Does NSF believe, using its Ocean Drilling Program experience, that joint Federal-industry projects are beneficial? Are they cost-effective? What programs in NSF should be of joint Federal-industry nature?

Answer: NSF believes that joint Federal-industry research projects are beneficial when they provide: (1) public information for the general good, and (2) important information relevant to industrial technology but not of a proprietary nature.

NSF also believes the Ocean Margin Drilling Program was an extremely large, complex almost, unique activity. As such it had special features that make generalization difficult. However, NSF does have considerable experience in stimulating joint Federal - industry investment in scientific research through such programs as Industry University Cooperative Research Projects and Industry University Cooperative Research Centers. The Funding for each of these latter projects is of the order of hundreds of thousands of dollars; the Ocean Margin Drilling program involved hundreds of millions.

When the Federal government and industry share the costs of joint research projects they can be quite cost effective both because of the leveraging of two sources of research support (Federal and Industrial) and because of the synergistic effect of research conception and performance on projects that are simultaneously technologically and scientifically important. Further, industry contributions to joint projects demonstrate commitment and belief in the technological utility of the research. The Federal contribution, generally involving university participation, helps provide timely focus and ensures that the scientific information derived is non-proprietary and in the long run interest of national technological development.

Programs in NSF appropriate for joint Federal-industrial efforts include: (1) shared research facilities important to industrial research but too expensive for a single firm to purchase or maintain (e.g. synchrotron radiation facilities), (2) research projects performed cooperatively by industrial and university researchers, and (3) university research centers sponsored by joint Federal-industrial funding.

COOPERATIVE RESEARCH

Question: In what areas of NSF concern should there be more industry involvement? What means should be used to motivate and encourage industry involvement?

Answer: Among the areas appropriate for industrial involvement in NSF supported research programs are: (1) the engineering disciplinary areas of chemical, electrical, mechanical, and civil engineering, and (2) the scientific areas of materials research, chemistry, physics, biology, and computer sciences.

Examples of the fruits of jointly designed and implemented research can be found in areas of high technological innovation such as robotics, information systems, semiconductor electronics, lasers, fiber optics communications, composite materials, catalysis, low temperature devices, and biotechnology.

We hear from industry that they recognize and are concerned about finding ways to strengthen our national capacity to conduct research and to train new scientists and engineers. Mindful of this, NSF has experimented, over the years, with a number of mechanisms to promote various kinds of university-industry interaction. By design, our experiments have allowed industry to select and participate in the research and its support. We have been pleased with the results.

The best way to encourage more industrial involvement is through continued attention to the areas of science and engineering where joint projects or cooperative centers can be mutually beneficial. One area for possible new thrusts is biological sciences.

University administrators and researchers must be made more aware of the potential of our industry/university cooperative research programs. They in turn will seek out the industrial companies who have interest in their fields of scientific and engineering expertise and who can use the university research as a resource.

OCEAN DRILLING PROGRAMS

Question: If the decision is made this summer that the Glomar Explorer will replace Challenger, from what other Foundation research activities will the approximately $9.0 million be taken from for reprograming? What effects will these reductions in funding have on these programs in FY 1983 and beyond?

Answer: We propose to reprogram $3 million each from Mathematical and Physical Sciences, Biological, Behavioral and Social Sciences, and Astronomical, Atmospheric, Earth and Ocean Sciences Activities. The reduction would result in relatively small across-the-board reductions in the research activities of the three Directorates.

Placing the possible Advanced Ocean Drilling reprogramming in the context of recent Ocean Drilling Programs (ODP) budgets the addition of $9 million would actually represent only a modest increase. The FY 1982 current plan includes $20 million for ODP as compared to only $14 million in the FY 1983 budget request. In that sense, a decision to proceed with AODP, bringing the total ODP budget to $23 million, would involve restoration of the Activity to only slightly more than steady state funding levels.

OTHER ENVIRONMENTAL RESEARCH

Question: What level of involvement does the Foundation feel it should have in ocean research? Other environmental research?

Answer: The major role in environmental research is to support basic, fundamental research that adds to the store of scientific knowledge concerning the structure and dynamics of natural systems. Such knowledge continues to be part of the basis for meeting the needs of other mission agencies in the public and private sectors.

For example on the biological side, studies funded by NSF under the aegis of the International Biological Program, provided insights into the ecosystem functioning of grassland, desert, and deciduous and coniferous forest biomes--insights useful to the managers of the renewable resources of these natural systems. The concept of Integrated Pest Management for the cost-effective protection of various crops was first persuasively demonstrated by a large, multi-university project jointly funded by NSF and the Environmental Protection Agency.

At the systematics levels, environmental biology continues to support studies on the basic nature and taxonomic arrangement of living organisms. Sound knowledge of the identity and characteristics of the plants, animals, and microorganisms of ecosystems is essential for the effective management of any ecosystem.

QUESTIONS SUBMITTED BY SENATOR HUDDLESTON

SCIENCE EDUCATION

Question: How many fellowships can be awarded under the FY 83 budget request?

How many of these will be new and how many continuations?

What is the geographic (by state) distribution of the fellowships being continued?

Will any effort be made to achieve any particular geographic distribution of new fellowships?

Answer: In FY 1983 approximately 450 new starts will be awarded and 840 Fellows continued in the Graduate Fellowships Program. Also, approximately 50 new starts will be awarded and 50 Fellows continued in the Minority Graduate Fellowships Program.

The institution by state of residence of fellowships being continued (890) is unavailable at this time. It is closely approximated, however, by the geographic distribution of the 1980 and 1981 awardees shown in the attached table.

Yes, geographic distribution is effected through a selection process in which approximately one-half of the awardees are chosen so that the awards represent as closely as possible the population distribution by state.

Question: What does a fellowship recipient currently receive in terms of assistance/support?

Answer: Each Fellow currently receives a stipend of $6,900 per year, or $575 per month of fellowship tenure. In addition, $4,000 is provided to the chosen institution in lieu of tuition and fees. Institutions may supplement stipends in accordance with institutional policy.

Question: Recent studies show that many science and math teachers are at the secondary level and are not prepared to teach those subjects. What are you doing to improve science education at the secondary level?

Answer: The ill-preparedness of many precollege science and mathematics teachers is a problem of growing proportions. In the past, we have attempted to assist states and localities by providing summer and academic-year training opportunities to update and reenforce the subject-matter competencies of teachers. We are hopeful that the National Science Board Commission on Precollege Mathematics, Science and Technology will provide guidance on whether there may be other ways that NSF can be helpful to states and other governmental jurisdictions in coming to grips with this problem. Many suggestions have been offered: differential pay incentives, raising teacher credentialling standards, provision of better equipment, etc. We need the advice of this Commission to help sort out the most promising of these new ideas and to define the role that NSF and other governmental agencies might play in implementing them.

NATIONAL SCIENCE FOUNDATION

Graduate Fellowship Program

Distribution by State of Permanent Residence of

1980 and 1981 Awardees

State	Continuation Fellows
Alabama	5
Alaska	3
Arizona	7
Arkansas	1
California	119
Colorado	15
Connecticut	18
Delaware	3
District of Columbia	4
Florida	21
Georgia	15
Hawaii	3
Idaho	4
Illinois	54
Indiana	25
Iowa	13
Kansas	10
Kentucky	5
Louisiana	12
Maine	6
Maryland	21
Massachusetts	35
Michigan	43
Minnesota	20
Mississippi	2
Missouri	14
Montana	5
Nebraska	4
Nevada	2
New Hampshire	4
New Jersey	35
New Mexico	9
New York	86
North Carolina	24
North Dakota	2
Ohio	47
Oklahoma	8
Oregon	9
Pennsylvania	57
Rhode Island	3
South Carolina	6
South Dakota	2
Tennessee	11
Texas	38
Utah	5
Vermont	2
Virginia	25
Washington	19
West Virginia	4
Wisconsin	23
Wyoming	2

Total	910

OCEAN DRILLING PROGRAMS

Question: What considerations would lead to a reactivation of the advanced drilling program?

Answer: The decision criteria for the Advanced Ocean Drilling Program (AODP) are:

- The scientific value of the program and the scientific benefits of the enhanced capabilities of the Explorer;

- Costs of converting Explorer;

- Long-term operating costs of the Explorer;

- The level of foreign support available.

Question: What factors will be used to determine whether to convert the Explorer or to refurbish the Challenger?

Answer: A cost-benefit analysis will compare the two ships under several possible operational arrangements. The analysis will consider both the near future -- the next five years -- and the longer term implications of each of the options. Each of the four decision criteria outlined above will be weighed in this analysis.

Question: What countries have supported the Deep Sea Drilling Project and which ones are interested in more advanced follow-on programs?

Answer: The four current partners -- France, Germany, Japan, and the United Kingdom -- have been members of the International Phase of Ocean Drilling (IPOD) since its inception in 1974-75. The Soviet Union was one of the original members, but its participation has been suspended because of larger policy problems in US-USSR relations.

Because the AODP is not yet an approved program, no actual negotiations have been undertaken, but we have been actively assessing the level of foreign interest. All of the current partners are deeply interested in the new program and are closely following its scientific and financial development.

A meeting to discuss the AODP is being held in Washington in mid-May 1982. In addition to the current IPOD countries, the following will be represented at that meeting: Australia, Brazil, Canada, Finland, Italy, South Korea, Mexico, the Netherlands, New Zealand, Norway, the People's Republic of China, Spain, Sweden, and Switzerland. A number of other countries have also asked for information on the AODP.

The Explorer is critical to any significant expansion of international participation. The Challenger is too small to accommodate the larger scientific complements that would be required for international representatives. Challenger carries a scientific party of 29, of which 4 to 10 berths on each cruise are held for IPOD scientists. Explorer will have quarters for 50 scientists.

Question: Do you foresee any likelihood of pursuing an ocean margin drilling program in the future?

Answer: It does not seem likely that the kind of joint industry-government undertaking envisioned the Ocean Margin Drilling Program of 1979-81 will be revived. In strictly scientific terms, however, the desire to drill on the margins and in ocean basins with heavy sediment cover, areas which require riser technology for drilling safety, remains strong. Eventually, it seems likely that the scientific community will seek to add that capability, and one of the arguments in favor of Explorer is that she can readily accommodate the necessary equipment.

ANTARCTIC PROGRAM

Question: How many U.S. personnel are involved in the Antarctic Program and what do they do? How long does an assignment in Antarctica usually last?

Answer: In any given year, there are approximately 1800 U.S. personnel involved in the Antarctic program. Most of these work in Antarctica during the austral summer season from early October to late February. In any given year, approximately 125 of the total winter-over in Antarctica. For these people the Antarctic assignment is 12-13 months in duration. For the remaining 1675 personnel that are there during the austral summer, the duration of assignment varies depending upon their duties. An average assignment in the Antarctic would be about five months duration. The following table presents a break-out of personnel who work in Antarctica:

ANTARCTIC PERSONNEL

Scientific Personnel		270
Civilian Contractor (1)		250
Naval Support Force Antarctica (2)		725
VXE-6 (Flying Squadron)	(390)	
Naval Support Force Antarctica	(335)	
Miscellaneous (3)		600
TOTAL		1845

(1) The civilian contractor operates 3 scientific stations (South Pole, Siple, Palmer), the scientific laboratories at McMurdo and the research ship Hero. The contractor also operates and maintains the Williams Field air facility near McMurdo and is responsible for all major construction in Antarctica.

(2) The Naval Support Force major responsibilities are for the operation of McMurdo Station, the largest U.S. facility, and for all U.S. air operations in Antarctica.

(3) Includes ship crews for two U.S. Coast Guard icebreakers, a Military Sealift Command cargo ship, a tanker and air crews and ground support personnel for U.S. Air Force cargo planes that fly between New Zealand and Antarctica during the austral summer, as well as NSF management personnel that go to Antarctica each season.

Question: How much do you expect Defense and Transportation to spend on logistic and other operational support for the Antarctic program in FY 1983?

Answer: No Federal agency other than the National Science Foundation is expected to fund any logistic or other operational support for the U.S. Antarctic Program in FY 1983. This is consistent with the President's memorandum issued on February 5, 1982, subject: "United States Antarctic Policy and Programs." This memorandum reaffirmed a 1976 directive that the National Science Foundation should budget for and manage the entire program as a single package.

Pertinent extracts from the President's February 5, 1982, memorandum follow: "I have ... decided that the National Science Foundation shall continue to:

- budget for and manage the entire United States national program in Antarctica, including logistic support activities so that the program may be managed as a single package;
- fund university research and federal agency programs related to Antarctica;
- draw upon logistic support capabilities of government agencies on a cost reimbursable basis; ...

To ensure that the United States has the necessary flexibility and operational reach in the area, the Departments of Defense and Transportation shall continue to provide, on a reimbursable basis, the logistic support requested by the National Science Foundation and to develop, in collaboration with the Foundation, logistic arrangements and cost structure required for effective and responsible program support at minimum cost."

Question: What is the current assessment of the resource potential of the Antarctic?

Answer: It is probable that large accumulations of minerals exist in the 5 1/2 million square miles of the continent and its shelves, and it is known that there are significant living resources in the surrounding seas. We know a great deal more about the living resources than we do about the nonliving resources, but the available evidence is so limited that the resource potential can be assessed at different orders of magnitude. Some scientists argue that the fishery potential is no more than 5 million tons per year, while others argue that it is several hundred million metric tons per year. In light of that uncertainty, responsible governments have agreed to a cautious and conservative development of this fishery under the new Convention on the Conservation of Antarctic Marine Living Resources.

The continent is 98 percent buried under a moving ice sheet with an average thickness greater than one mile, and we know very little about the underlying geological structure. Even if substantial mineral resources exist under that ice cover, we assess a very low to neglible potential for their economic recovery.

In that two percent of the continent that is ice free there have been found occurrences of minerals, but no deposits have been identified as having resource potential; a possible exception might be made for coal deposits which might be locally usable, but which would not be economically exportable.

In the offshore continental shelf region, it is widely speculated that there might be substantial deposits of oil and gas, but there is no direct evidence that any exist. If deposits of oil and gas were found, they would have to be very large to be considered as having an economic resource potential. There is no real assessment available, but the speculative estimates suggest 15 billion barrels of oil and 115 trillion cubic feet of natural gas might be recoverable. On the seafloor around Antarctic there have been found extensive scatterings of manganese nodules that could be recovered with the same technology used elsewhere for that purpose. However, the desirable metal content of nodules decreases with latitude, being richest near the equator. Therefore, it appears that the antarctic region would not have manganese nodule resource potential unless the more desirable low latitude resources were exhausted.

An important consideration in assessing resource potential must be the operating environment. The area is 8,000 miles from the continental U.S. and 500 to 2,200 miles from the nearest transportation or support sites on inhabited lands. The continental shelf and slope are depressed some 1,500 feet deeper than in other regions of the world by the weight of the continental glacier. Much of the coastline is locked inside fixed ice shelves or permanent sea ice, and the ice pack extends from 100 to 300 miles offshore, depending on the season. The steady movement of the continental glaciers and resulting ice shelves frequently causes the calving off of large icebergs that can be tens of miles long and wide and more than a half mile thick. Finally, the antarctic ecosystem is vulnerable to human interference, and resource technology must be developed to deal with these additional risks.

Question: Why is the request for reimbursement of the Coast Guard for icebreaker support up so much over FY 1982? Is this solely related to NSF programs?

Answer: The reason is because NSF, beginning in FY 1983, will fund the full cost of icebreaker support instead of only partial costs as was the case in FY 1982 and prior years. The following paragraph from page USAP-4 of the NSF FY 1983 budget request explains the change:

"For FY 1982 and prior years there has been only partial reimbursement to the Coast Guard for icebreaker services in support of the U.S. Antarctic Program. Effective in FY 1983 the total operating cost of Coast Guard icebreakers is being included in the budget requests of the various Federal agencies utilizing icebreakers in support of their program. Inclusion of these funds in the NSF budget rather than in the Department of Transportation budget is another step in the consolidation of all U.S. Antarctic Program costs in one organization. It does not result in an increase to the total Federal budget."

All Coast Guard icebreaker support is related to U.S. national program in Antarctica which is budgeted for and managed by the National Science Foundation as a single package.

Question: What would be the cost of the program if the U.S. simply maintained a "presence" in Antarctica, i.e., there were no scientific research."

Answer: To maintain the presence (less science) directed by the President's February 5, 1982, memorandum requires year round occupation of the South Pole and two coastal station. The two present coastal stations are McMurdo Station in the Ross Sea area and Palmer Station in the Antarctic Peninsula area. To maintain that presence, it would require continued operation of the present support system. The FY 1983 costs could be reduced by the $10.1 million of support directly related to science activities described on pages USAP-II-5 and 6 of the NSF FY 1983 budget request.

The $9.0 million for research awards to academic institutions described in the NSF FY 1983 budget request beginning on page USAP-I-1 could be eliminated. These funds are for research activities to be conducted in Antarctica in FY 1984 - the research activities to be conducted in Antarctica in FY 1983 are currently being funded using already appropriated FY 1982 funds.

For FY 1983 the cost could be reduced $19.1 million or 22 percent.

It should be noted, however, that the active and influential presence directed by the President includes the "conduct of scientific activities in major disciplines"; also, under terms of the Antarctic Treaty, the conduct of scientific investigations in Antarctica is to be the major expression of presence.

INDUSTRIAL BASIC RESEARCH

Question: According to your justification, industrial funding constituted about 30 percent of the total investment in basic research in the 1960's but now supports only about 16 percent. What accounts for this downward trend? Is it focused in any particular areas?

Answer: In 1960, industrial R&D funding constituted about 30 percent of the total U.S. basic research effort. This proportion fell sharply to 18 percent in 1965 and continued downward to 15 percent by 1970, where it remained through 1975. Between 1965 and 1975 industrial basic research funding declined at an average annual rate of 1 percent in constant dollars in contrast to expenditures for industrial applied research and development which grew at about the same average annual rate as overall corporate sales, 4 percent, during this ten year interval. The decline in basic research reflected increased corporate scrutiny of the benefits anticipated from basic research outlays, as well as an increasing concern for short-term profit improvement. (Firms in the electrical equipment industry experienced relatively larger basic research cutbacks during this period.) During the mid-70's, the industrial basic research decline was abrubtly reversed, and, beginning in 1975, firms began to strengthen their basic research activities. This upward trend appears to be holding into the early 80's.

INDUSTRY/UNIVERSITY COOPERATIVE RESEARCH CENTERS

Question: Your justification indicates that one additional industry/university cooperative research center will be established and planning grants for several new centers added. Where will these be?

That, I believe, brings the total to six. Where are these located? What is the level of continuing support to existing centers?

Answer: Six Industry/University Cooperative Research Centers (IUCRC) are now operating; one (Massachusetts Institute of Technology Polymer Processing Center) is already self sufficient. These centers have a total FY 82 research budget of $4.3 million with $1.0 million from the National Science Foundation cofunded by $3.3 million from industry. Another three centers are planned to be started this fiscal year. These centers should increase the total FY 82 research budget for all operating centers to $5.7 million with $1.4 million from the National Science Foundation cofunded by $4.3 million from industry (an industry/National Science Foundation ratio of 3 to 1).

The six operating centers are:

Massachusetts Institute of Technology - Polymer Processing
Rensselaer Polytechnic Institute - Computer Graphics
University of Massachusetts at Amherst - Basic Polymers
Ohio State University - Welding
Case Western Reserve University - Applied Polymers
University of Rhode Island - Robotics

The three proposed centers are in Iowa, North Carolina, and New Jersey. The proposed new research programs will study building technologies, communications and signal processing, and ceramics.

Three new planning grants are being considered and reviewed. These are in Wisconsin, Pennsylvania, and Texas. The proposed planning grants are in the areas of bioscience, dialectrics, and hydrogen.

Approximately $1.3 million will be required for continuing support of exisiting centers in FY 83.

EARTHQUAKE RESEARCH

Question: You are maintaining earthquake research at the FY 82 level. What impact will this have on your activities?

Answer: Because the cost of research continues to increase, the maintaining of the earthquake research funding at a constant level will result in a reduction of research activity as well as shifts in research emphasis. Additional research on lifeline engineering (i.e., gas, water, sewer, power, and communication systems, transportation systems, etc.), existing hazardous buildings and large-scale testing of structures will not be accelerated. Two approaches being emphasized to overcome the constrained budget are (1) international cooperative projects, and (2) acquisition of data from earthquakes and other natural disasters that occur throughout the world. These international cooperative activities allow the "pooling" of limited resources to solve problems that are common to other countries.

INTERNATIONAL INSTITUTE FOR APPLIED SYSTEMS ANALYSIS (IIASA)

Question: Has withdrawal from participation in the International Institute for Applied Systems Analysis (IIASA) been negotiated? When will this occur?

Answer: The President of the National Academy of Sciences has informed the Director of the National Science Foundation of the decision taken by the NAS Council on April 25, 1982, to terminate the Academy's membership in IIASA on December 31, 1982. Each IIASA Council member was informed of this decision on April 30, 1982, by a telex message from Dr. N. Bruce Hannay, the U.S. member of the IIASA Council. This constituted the Academy's formal notice to IIASA of withdrawal from the Institute.

SMALL BUSINESS INNOVATION RESEARCH

Question: Your FY 83 request for small business innovation research is $5.5 million, an increase of $500,000 over FY 82. What are your plans for this program in FY 83? Will additional firms be assisted?

Answer: The Small Business Innovation Research (SBIR) program will continue in FY 83 and the increase of $500,000 will allow us to make 2-3 additional phase II awards. (Phase I awards are for six months and up to $30,000 for feasibility research. Phase II awards are the principal research project and have averaged $200,000 for two years.) Due to SBIR legislation currently before Congress, we have kept the number of phase I awards at 85 to reach a larger number of small high-technology firms. The legislation, if passed, would allow the most promising 1/3 to 1/2 of phase I awards to be funded in phase II as planned in the SBIR program's design. If the legislation is not enacted, we will delay a new (smaller) solicitation until FY 84 and use the $5.5 million to fund up to one-third of phase II proposals received from the FY 81 and FY 82 SBIR solicitations.

DOCTORATES AWARDED TO FOREIGN CITIZENS

Question: Your justification notes that one of every five science and engineering doctorates granted by U.S. universities in 1979 was awarded to a foreign citizen. If this pattern holds, what implications do you foresee?

Answer: In 1979 foreign citizens constituted about 7 percent of the 330,000 doctoral scientists and engineers in the United States. Among individual fields, the proportion of foreign doctorates was highest--12 percent--in engineering. One tenth of the 3,600 foreign citizens who received science and engineering doctorates in 1979 planned to remain in the U.S.; one third of the 1,200 foreign engineering doctorate recipients planned to remain. Thus, foreign citizens constitute an annual increment to the U.S. doctoral science and engineering labor force of less than one percent, making the short range impact on the domestic labor supply trivial. Were the current patterns of doctorate production and immigration to continue through 1990, however, the long range cumulative impact could be significant, particularly in engineering where as much as one sixth of the doctorate labor force might be foreign citizens.

Question: What is the extent of NSF support of foreign science and engineering students?

Answer: Candidates for NSF graduate fellowships must be United States citizens. For research projects funded by NSF grants, the principal investigators are responsible for the selection of graduate student assistants who may be United States citizens or foreign nationals.

ACADEMIC COMPUTER RESEARCH

Question: Computer science is obviously an expanding field, but industry is heavily involved. Why should NSF have to put increased funding into this field?

Answer: The expansion of computer science and the heavy involvement of industry in fact underline the importance of increased NSF funding in this field. There are two reasons for this. The first reason is the intense demand for highly trained scientific manpower which only the universities can provide. Large investments by industry in R&D laboratories and equipment have made academic laboratories obsolete, while competition for professional talent has depleted the ranks of faculty and advanced students. Although academic institutions are responding by preferentially raising salary levels for computer scientists and engineers, they do not have the resources to provide research opportunities in this intellectually vital field and to update research laboratories that are necessary to retain quality faculty and graduate students. The increased NSF funding is directed precisely at providing these resources.

The second reason is the central role that academic basic research can and does play in computer science. Academic and industrial research are differently motivated and to a substantial degree complementary. Neither, by itself, is adequate to sustain the required progress in this rapidly developing and important field. This leads naturally to a discussion of the second question concerning the distinction between academic and industrial research.

Question: How does the computer science research you support differ from that undertaken by industry?

Answer: Academic research is guided by the scientific insight of the researcher without concern for its relevance for application or product development. As a result, it wanders freely over the whole spectrum of computer science and engineering contributing new knowledge and understanding which sometimes has surprising influence on practice and technology. The Reduced Instruction Set Computer architecture (RISC) now being studied at the University of California, Berkeley, is an example of research which was not undertaken in any industrial setting because it was too removed from forseeable product lines but which is being closely followed by many computer companies and is actively influencing their designs and new product planning. It offers promise of great simplification and much more effective use of new electronics fabrication technology.

By contrast, industrial research, while of high quality, is mostly constrained to areas which are perceived to be relevant to the companies' products. This imposes shorter range goals and restricts the planning and conduct of research so that it does not depart too far from company objectives or fail to justify its cost in reasonable time from the perspective of the company's product development. Remarkable advances and technical achievements often come from industrial research. However, many of the fundamental ideas that ultimately contribute to these advances come from the academic sector.

FULL-TIME EMPLOYMENT REDUCTION

Question: Your FY 83 budget request shows a reduction of 63 full-time equivalent employment (FTEE). Where will these reductions be taken?

Answer: Tentative reductions in planned staffing allocations in order to reduce the FY 1982 FTEE ceiling to the FY 1983 ceiling, by activity, are:

	FTEE
Mathematical and Physical Sciences	3
Engineering	1
Astronomical, Atmospheric, Earth and Ocean Sciences	3
Bioligical Behavioral and Social Sciences	6
Scientific, Technological and International Affairs	7
Science and Engineering Education	34
Executive Management	4
Central Support and Administration	5
Total	63

INSTRUMENTATION NEEDS

Question: Instrumentation needs will, under your FY 1983 budget, be addressed through the research programs for each discipline, rather than through a separate instrumentation program. Isn't this likely to result in instrumentation assistance going to a few select institutions, rather than being more geographically dispersed?

Answer: In FY 1983, support for scientific equipment may be provided as part of the funding of a research project, through an award by a disciplinary equipment program, or through funding of a specialized laboratory or facility. Because the scale and complexity of the equipment depends on the nature of the studies to be conducted, the mix and method of award will vary in a manner that responds to the particular needs of the research discipline.

For example, the Foundation will provide research instruments not only through a project research grant, say in chemistry, but also to the Materials Research Laboratories, to a national research facility, through the Biological Instrumentation Program, or through a separate competition for low-cost instruments to be use by faculty in colleges or universities with no or small doctoral programs .

In deciding upon research and such research-related support as equipment acquisition, the principal factor considered is the potential scientific importance of the research; geographic distribution is considered only when deciding between projects of essentially equivalent scientific merit. Overall, then, in FY 1983, the distribution of the scientific equipment is expected to correspond roughly to the Foundation's general distribution of research support.

SUBCOMMITTEE RECESS

Senator GARN. Thank you very much. The subcommittee will stand in recess until May 5 at 10 a.m., when we will receive the testimony from the National Aeronautics and Space Administration.

The subcommittee is recessed.

[Whereupon, at 11 a.m. Tuesday, April 27, the subcommittee was recessed to reconvene at 10 a.m. Wednesday, May 5.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

WEDNESDAY, MAY 5, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:02 a.m. in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, Huddleston, and Proxmire.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

STATEMENT OF JAMES M. BEGGS, ADMINISTRATOR

ACCOMPANIED BY:

- DR. HANS MARK, DEPUTY ADMINISTRATOR
- C. THOMAS NEWMAN, COMPTROLLER
- ROBERT E. SMYLIE, ASSOCIATE ADMINISTRATOR FOR SPACE TRACKING AND DATA SYSTEMS
- DR. JACK L. KERREBROCK, ASSOCIATE ADMINISTRATOR FOR AERONAUTICS AND SPACE TECHNOLOGY
- DR. BURTON I. EDELSON, ASSOCIATE ADMINISTRATOR FOR SPACE SCIENCE AND APPLICATIONS
- MAJ. GEN. JAMES A. ABRAHAMSON, ASSOCIATE ADMINISTRATOR FOR SPACE TRANSPORTATION SYSTEMS
- DR. STANLEY I. WEISS, ASSOCIATE ADMINISTRATOR FOR SPACE TRANSPORTATION OPERATIONS
- DR. WALTER B. OLSTAD, ASSOCIATE ADMINISTRATOR FOR MANAGEMENT

OPENING REMARKS

Senator GARN. The subcommittee will come to order.

Gentlemen, we are happy to welcome all of you here this morning.

Through work conducted and managed by NASA, the United States continues to lead the world in the exploration of space and the development of space technology. In addition, NASA is responsible for conducting essential work in aeronautics that has contributed to our world leadership in the production and export of civil and military aircraft.

Our investment in NASA also pays off as a direct stimulus to increased national productivity. The spinoff of NASA's technology is well known. New products are created and new markets established. The space agency is a national resource of scientific and engineering talent that is unmatched elsewhere in the world.

NASA also contributes directly to national security by pushing technology in areas like rocket propulsion, electronics, and composite materials. In the future, national security requirements will dictate that we operate routinely in space. NASA's Space Shuttle will enable us to do so.

Many might question NASA's role in performing these functions for DOD, however, I believe such cooperative efforts are in NASA's and the taxpayers' best interest.

For fiscal year 1983 you are requesting a total of $6,612,900,000, or $672.9 million over your fiscal year 1982 level, and your R. & D. request of $5.334 billion is 12.6 percent over the fiscal year 1982 level.

I see you have an 18-page opening statement. Could you please summarize it and we will place the entire statement in the record.

I would also make one other comment about your budget. When I first came to the Senate there was still a separate authorizing space committee. I became a freshman member of that committee when Jim Fletcher was then the Director of NASA. I remember the commitments that were made by the authorizing committee at that time that NASA could not expect increases except to keep pace with inflation. That was the full intent of Congress at that time.

So, when we talk about these increases of 12.6 percent, I would simply note that we have not kept our commitment to NASA, not just this year but for more than 7 years that I have been in the Senate. Your purchasing power has actually dropped rather dramatically because Congress did not keep those commitments made to Jim Fletcher by the authorizing committee at that time.

Mr. Beggs, would you like to proceed.

NASA'S FISCAL YEAR 1983 BUDGET REQUEST

Mr. BEGGS. Thank you, Mr. Chairman.

Mr. Chairman, it is a pleasure to appear today to present President Reagan's budget request for NASA for fiscal year 1983. The total request is $6.6 billion, of which $5.3 billion is for research and development, $100 million is for construction of facilities, and $1.2 billion is for research and program management. In accordance with administration policies, some programs have been reduced or delayed because of the urgent need to restrain increases in Federal spending. At the same time, the request continues programs related to strengthening our national security. In general, we are maintaining strong program efforts in those fields directly related to the responsibilities of NASA under the National Aeronautics and Space Act.

SHUTTLE DEMONSTRATION

Before addressing specific program areas, I would like to comment on the Space Shuttle program. As you know, 1983 marks the transition of the Shuttle from a test vehicle to a reliable, reusable spacecraft serving both the commercial and scientific communities. A good example of such a commercial and scientific demonstration is the proposed retrieval and repair of the solar maximum mission (SMM) satellite. If repaired, the satellite will have several years' useful life remaining to study the close relationship of solar flares and other solar phenomena of life on Earth. At the same time, such a demonstration should encourage design and manufacture of satellites which can be repaired in space. A successful SMM repair would give the United States a capability in space which cannot be matched by any other nation.

We have fully funded the essential elements of the Shuttle program in our fiscal year 1983 request. The highest priority we have set for NASA is to complete development of the Shuttle and to turn it into an operational system. Safety and reliability of flight and the control of operational costs are primary objectives as we move forward with the Shuttle program.

NASA EFFORTS TO FIGHT INFLATION

We have made some significant program reductions in selected areas in order to help meet the administration's objective of fighting inflation by reducing Federal spending. These reductions have been made in those portions of our aeronautics and space applications programs where we believe it is appropriate for the private sector of our economy to play a larger role. It is important to recognize that we have not reduced spending on basic research and technology that could support new initiatives in civil aviation or in space applications. What we have done is reduce our work in systems technology and technology demonstration programs in which performance by the private sector appears appropriate.

We have also reduced some of our activities in space science and space exploration. By making these reductions, we have placed the highest priority on work in astronomy and space physics, because we believe that discoveries of an unusually important and fundamental nature will soon be forthcoming in these areas.

NASA ORGANIZATIONAL CHANGES

Finally, I would like to say a word about the NASA organization. In the past months, we have made some organizational changes that will make it easier for me to spend more time on major policy questions. We have improved communications and streamlined overall management control by reducing the number of people who report directly to me. We have consolidated the Offices of Space Sciences and Space Applications into one organization to strengthen the common technical and management elements inherent in the previously separate organizations. We have broadened the authority and responsibilities of the program associate administrators by having the field centers report directly to them. We are now in the process of merging the Offices of Space Transportation Systems and Space Transportation Operations in preparation for the operational period ahead.

I believe that the organizational steps we have taken will make it possible to delegate authority more readily and improve the overall operation of NASA.

That concludes my summary. I would be happy to answer any questions you may have. Thank you.

Senator GARN. Thank you.

[The statement follows:]

STATEMENT OF JAMES B. BEGGS, ADMINISTRATOR, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

It is a pleasure to appear today to present President Reagan's budget request for NASA for FY 1983. The total request is $6.613 billion of which $5.334 billion is for Research and Development, $100 million is for Construction of Facilities, and $1.179 billion is for Research and Program Management. A chart summarizing the request is appended to this statement.

During his first year in office, the President has clearly stated the two major policy priorities of the Administration. The first is to revive our economy and the second is to strengthen our national security. The control of inflation has been identified as this Administration's primary economic objective. Since inflation is related to spending by the Government, the total request, as submitted, reflects significant steps to reduce spending in FY 1983. At the same time, the military and political threat posed by the Soviet Union has increased steadily during the past two decades. Improving the Nation's defense posture is clearly the second major priority of the Administration. The FY 1983 budget request for the National Aeronautics and Space Administration has been prepared to be consistent with these broad and overriding priorities.

Before turning to the details of the request, I would like to review the significant contributions and challenges which I foresee for the Agency in the coming fiscal year.

The United States has conducted a vigorous space program for almost a quarter century under the broad policy guidelines set by the Congress in the National Aeronautics and Space Act of 1958. This far sighted piece of legislation has made it possible to conduct a program in both the public and private sectors that has led to truly remarkable scientific and technical achievements and to ever-increasing investments in terms of real dollars in aviation and space operations.

The large commercial communications satellites now in geostationary orbit are the direct technical descendents of NASA's early Applications Technology Satellites. The relative stability of the world today is dependent to a considerable extent on national security related satellites employing technology that was pioneered by NASA in the 1950's and 1960's. The success of this technology transfer to the commercial and military sectors is demonstrated by the fact that NASA today accounts for a smaller fraction of the national spending on space-related activities than in the past even though the NASA budget has remained relatively constant in real year dollars for the past few years. The national security related space program and the commercial programs have both seen very substantial increases in the past five years. These increases are related to important national security requirements as well as new commercial opportunities. The ability to satisfy these requirements and to exploit these opportunities is due in large measure to the work performed by NASA over the years.

In accord with the Administration's policies, NASA's FY 1983 program shows the retention of, or increases in, those programs that can be related directly to national security. We have also maintained a strong program in those fields directly related to the responsibilities of NASA under the National Aeronautics and Space Act. However, some programs have been reduced or delayed because of the urgent need to reduce Federal spending. We have heard expressions of concern that this balance of priorities can lead to the "militarization" of the Agency. I would like to assure you, Mr. Chairman, that this Administration is strongly committed to the maintenance of an independent NASA charged with pioneering new enterprises and technologies that will enhance the ability of the United States to conduct operations in space and aeronautics that further the objectives laid out in the National Aeronautics and Space Act and maintain the competitive posture of this country in aeronautics and space technology.

We are conducting our support of agencies with responsibilities in the area of national security under the provision of the Act that requires NASA to make "available to agencies directly concerned with national defense of discoveries that have military value or significance....."(Section 102(c)(6)). The case of aeronautics is a particularly important example. The President, in submitting his strategic force modernization program to the Congress in October 1981, has made commitments in excess of $50 billion for the next decade to create a new generation of strategic aircraft. The B-1B bomber, a variation of the B-1 configuration, has already benefited heavily from NASA support in the design process. A large fraction of the 26,000 hours of wind tunnel time used to develop the B-1 configuration was performed in NASA facilities. We expect to provide comparable support in other defense-related areas such as advanced avionics and the so-called "stealth" technologies. NASA's aeronautics program has been structured to provide full support for those aeronautical programs that are vital to the national security as well as the high priority needs of the commercial aeronautics programs.

The past year was a historic one for the development of new capabilities in space. The first flight of "Columbia" in April 1981, was a milestone that marks a fundamental change in the way space operations will be conducted in the future. The second flight in November was the first time that a spacecraft has been reused in its entirety - flown again, and recovered. The original concept of a reusable spacecraft that was developed by NASA in the late 1960's has, therefore, been proved and the Nation can be justifiably proud of this achievement.

We have fully funded the important elements of the Shuttle program in our FY 1983 request. The highest priority we have set for NASA is to complete the development of the Shuttle and to turn it into an operational system. Safety and reliability of flight and the control of operational costs are primary objectives as we move forward with the Shuttle program. We are continuing to take the necessary technical and management steps to make certain that safety will not be compromised and that reliability will exceed that of our current generation of launch vehicles. Cost control is equally important to the viability of the system. This aspect is sharpened by the serious competition for launch services that we now face from abroad.

The steps which we shall take to control the cost of Shuttle operations will fall into two broad categories: first, we will reduce the number of people necessary to conduct Shuttle operations. We believe that this can be accomplished through a number of incremental steps, as we gain flight experience, without compromising safety and reliability. We plan to make a careful analysis of the actions which we must carry out to plan and conduct Shuttle operations. This analysis will include requirements and procedures for flight planning, payload integration, vehicle servicing, test and checkout. We will then be in a position to streamline our civil service and contractor structures to match those requirements. Second, we must reduce the cost of producing the consumable items used for each flight and of refurbishing the items that are reused from flight to flight. The external fuel tanks are perhaps the best example of what we have in mind. We believe that substantial production cost reductions are possible as we make necessary investments to automate production procedures. In other areas I expect flight experience to lead to design changes which will permit operational cost savings.

We have made some significant program reductions in various areas in order to help meet the Administration's objective of fighting inflation by reducing Federal spending. These reductions have been made in those portions of our aeronautics and space applications programs where we believe it is appropriate for the private sector of our economy to play a larger role. It is important to recognize that we have not reduced spending on basic research and technology that could support new initiatives in civil aviation or in space applications. What we have done is to reduce our work in systems technology and in technology demonstration programs in which performance by the private sector appears appropriate.

We have also reduced some of our activities in space science and space exploration. In making these reductions, we have placed the highest priority on work in astronomy and space physics because we believe that discoveries of an unusually important and fundamental nature will soon be forthcoming in these important areas. We have, therefore, funded both the Space Telescope and the Gamma Ray Observatory. There is good reason to believe that the Space Telescope, to be launched in 1985, will be the most important scientific instrument ever flown. Observation of objects such as quasars, Seyfert Galaxies, and the remnants of large supernova events will almost certainly lead to new information about the origin of the universe.

We have retained the Gamma Ray Observatory for launch in 1988 for the same reason--because gamma rays are probably the most sensitive indicators of what happens in objects where very energetic processes are occurring. We have made some reductions in our planetary exploration program, most significantly, deletion of the Venus Orbiting Imaging Radar mission, but we have retained funds for the Galileo mission in the FY 1983 request. The planetary program realized enormous success in the last decade. We believe, however, the time has come to reevaluate this program and to set new direction for the future. Several scientific study groups within and outside NASA are now studying the future of the planetary exploration program. We believe that the outcome of these studies could lead to the development of some less expensive missions for the late 1980's and early 1990's as well as more ambitious concepts such as manned visits to earth-crossing asteroids and perhaps the nearby planets in the years to follow.

As noted earlier, the policies the Administration is developing to shape the future of the American space and aeronautics program are consistent with the National Aeronautics and Space Act. They provide for the retention of two administratively separate activities in space--one related to the national security and another related to essentially civilian activities. While this separation is maintained, we are working actively to strengthen relationships at all levels between NASA and those elements in the national defense establishment for activities in space related to the national security. You will see evidence of this when you examine the details of our program. We strongly support this administrative separation and believe that the arrangement has served the national interest well in the past and will continue to do so in the future.

A fundamental requirement of the Space Act is to preserve the role of the United States as a leader in space technology. For the last decade the major policy objective of the space program has been to provide routine access to space. To implement this policy objective we have created the Space Shuttle. Although we still have much work to do to turn the Shuttle into an operational system, we believe that the time has come to examine some possible new policy objectives and to plan the technological initiatives required to implement them. For example, an operational Space Shuttle leads to the possibility of establishing permanent facilities and a permanent presence in space. We are critically examining the possibility of establishing a permanent presence in space, as a major national initiative in space, and have begun appropriate discussions within the Administration to this end.

Several other policy and institutional issues are currently under review by study groups organized under the auspices of the Office of Science and Technology Policy. These include studies dealing with institutional arrangements in aeronautics and in Space Shuttle operations and with technical questions concerning the stable of launch vehicles that the Nation's space operations will require in the future. We expect that these studies will be completed in the late spring or summer of this year. NASA is well represented and deeply involved in these studies and we believe they will provide a new insight into the national aeronautics and space endeavor.

Finally, I would like to say a word about the NASA organization. In the past months we have made some organizational changes that will hopefully make it easier for me to spend more time on the major policy questions that I have just outlined. We have improved communications and streamlined overall management control by reducing the number of people who report directly to me. We have consolidated the Offices of Space Science and Space Applications into one organization to strengthen the common technical and management elements inherent in the previously separate organizations. We have broadened the authority and responsibilities of the Program Associate Administrators by having the field centers report directly to them rather than to me. We are also in the process of merging the Offices of Space Transportation Systems and Space Transportation Operations as we prepare for the operational period ahead. I believe that the organizational steps we have taken will make it possible to delegate authority more readily and improve the overall operation of the organization. In the coming months, we will be taking other organizational steps with these objectives in mind.

Mr. Chairman, I would now like to proceed with an overview of NASA's FY 1983 program.

SPACE TRANSPORTATION SYSTEMS

For Space Transportation Systems the request of $3.468 billion for FY 1983 will move us out of Shuttle development flight test and evaluation and into the initial stages of operations. The past year marked significant gains toward providing the Nation with an operational space transportation system. The key element of this system, the Space Shuttle, has completed three of its four planned orbital flight tests. All three flights, STS-1, STS-2 and STS-3 were highly successful.

STS-1 accomplished all major flight objectives and demonstrated the viability of the total system. STS-2 fulfilled 90 percent of planned high priority flight objectives, demonstrated the reusability of the orbiter vehicle and its ability to support payload requirements. In March we successfully completed the eight day mission of STS-3 which included extensive thermal testing of the orbiter and the first payload manipulation by the Remote Manipulator System. This mission was by far the most demanding to date and represents a major stride toward an operational system.

During the current fiscal year we will complete the last orbital flight test and accept delivery of the second orbiter vehicle, Challenger, now scheduled for early this summer. At the Kennedy Space Center the first line of Space Shuttle processing facilities and ground support equipment which supported the STS-1 through-3 launches are fully activated and a number of second line processing facilities are nearing completion.

SPACE SHUTTLE

The budget request for Space Shuttle in FY 1983 is $1.718 billion. By the coming fiscal year we will have completed basic development and flight test of the Shuttle and, therefore, are not requesting funds for DDT&E. However, $72.5 million is requested for changes and systems upgrading to initiate modifications to improve reliability, increase operating efficiency and reduce costs. These funds allow for potential changes and systems modifications and unanticipated developments not included in the budget for production.

Our FY 1983 budget request for Space Shuttle production is $1,585.5 million for such activities as the orbiters, main engines, spares and equipment. Manufacturing of orbiters will continue on a schedule consistent with the needs of the Department of Defense and civil users.

For orbiter activities, we are requesting $933.5 million to cover such activities as OV-103 systems installations, factory checkout, and the thermal protection installation. OV-102 will be modified to full operational status; and, OV-104 fabrication and assembly will proceed with major subcontractor effort accounting for much of this activity.

$262 million is required to continue main engine fabrication and assembly of Full Power Level (FPL) flight engines. FPL certification testing will be supported leading to certification of the FPL engines in FY 1983 for ten missions. Life maintenance demonstration testing will be initiated at the completion of FPL certification testing.

For KSC production activities, we are requesting $67 million for design, installation, checkout and validation of the second line processing facilities, including the solid rocket booster segment processing, storage facility, the second launch pad, and the DOD secure firing room.

$323.0 million is being requested for the spares and equipment needed to provide rate tooling to support external tank and solid rocket booster production and the procurement of orbiter flight spares and crew equipment commensurate with the operational flight rate buildup.

We are also requesting $60 million for performance augmentation to enhance Shuttle ascent performance. Some erosion in payload capability and performance margins has occurred as a result of growth in the system's inert weight, particularly in the orbiter. The augmentation of ascent performance is needed to support certain national security missions and, in particular, a scheduled launch from the Western Space and Missile Center in 1985. Alternate performance augmentation studies were previously planned to extend through FY 1982. However, due to early completion of the necessary trade-off analyses and the requirement to initiate development as soon as possible to meet the 1985 mission date, we have selected an approach which will reduce the inert weight of the solid rocket boosters by using filament wound motor case segments to replace the heavier steel cases. A reprogramming request to initiate development has been presented to the Committee to apply study funds previously requested in FY 1982 to initiate development.

Also included in this request is funding to support a demonstration of the space transportation systems's ability to support a mission to retrieve an operating spacecraft and repair it on orbit or return it to earth for refurbishment. It has been determined that the Solar Maximum spacecraft, which is now partially disabled, will serve as the target for this demonstration. This mission would restore this spacecraft to full operational status for further important data gathering.

SPACE FLIGHT OPERATIONS

In Space Flight Operations we are requesting a total of $1.707 billion. Significant accomplishments in the past year include delivery of the Spacelab flight unit, flight of the first scientific payload on STS-2; and, in addition to the three successful Shuttle launches, a perfect record of 11 successful launches using Atlas-Centaur, Scout, Delta and Atlas-F vehicles.

STS operations activities provide continuing support for the integration of the Space Shuttle system, the Spacelab, upper stages and all ground launch and mission control facilities into a versatile and economical overall system to accomplish user mission objectives.

Shuttle operations funding of $1,414 million constitutes the largest portion of the overall Space Flight Operations budget. It supports a schedule of 5 planned launches in FY 1983, 10 launches in FY 1984 and 13 launches in FY 1985. Activities include mission planning and flight operations, orbiter launch and landing processing, cargo processing and payload integration, and procurement of external tanks, solid rocket boosters and spare equipment. Also included is upper stages operations funding required for the production, delivery and operation of the Air Force Inertial Upper Stage (IUS) and the Solid Spinning Upper Stage (SSUS). Two IUS's during FY 1983 will carry two Tracking and Data Relay Satellites (TDRS) from low-earth to geosynchronous orbit.

STS operations capability development funding of $85.4 million will be used to support upper stage development, multi-mission and payload support equipment, Mission Control Center (MCC) upgrading, payload and operations support and STS operations effectiveness. Multi-mission and payload Support Equipment will be developed into a standard, reusable inventory of equipment which can be used for a variety of payloads. Mission Control Center upgrading funding will be used to reconfigure the MCC at the Johnson Space Center with new equipment and software to support the requirements of the STS operational flight schedule. FY 1983 funding for Payload and Operations Support will be used to support the development and activity of the Payload Operations Control Center at the Johnson Space Center to support NASA Spacelab missions in conjunction with the MCC.

Upper stage vehicles under development are the Inertial Upper Stage (IUS) and the Solid Spinning Upper Stage (SSUS).

For FY 1983 we are requesting $32 million for continuing the necessary activities to modify the two-stage IUS for NASA missions.

We are requesting $82.4 million to support the engineering and technical support base, formerly called development, test and mission support. This redefined program activity provides minimal core capability to sustain an engineering and development base to support various Space Transportation Systems programs. This core capability provides basically for a five day, one shift operation of designated institutional research and development facilities. Demands in excess of this support are being funded by the benefiting programs.

FY 1983 funding for STS operations effectiveness will be used to provide for improvements in STS vehicle hardware, vehicle turnaround and cargo processing, mission operations and system software automation. This funding will also support management studies to develop strategies to insure maximum utilization of the STS while reducing the cost and complexity of STS operations and evaluating possible scenarios for future institutionalization of the system.

Most of the $113.2 million funding for Spacelab in FY 1983 will be used to continue the procurement of the second flight unit and spares and to support the first Spacelab mission in late FY 1983. This funding will also be used to continue work on the first Spacelab crew transfer tunnel and to complete the Spacelab simulator at JSC to support crew training for the first mission. In addition, funds will be required for the Spacelab integration contractor to support preparations for the first flight, software using the Software Development Facility at the Marshall Space Flight Center, and to continue integration and checkout of the flight unit hardware and software at KSC.

For advanced programs we are requesting $11.9 million. Major emphasis will be placed on continuing studies, engineering investigations and definition of mission options made possible by the space transportation system. Options include unmanned platforms in both low-earth orbit and geosynchronous orbit, a permanently manned facility in low earth orbit and various support elements.

EXPENDABLE LAUNCH VEHICLES

Our request of $42.8 million for Expendable Launch Vehicles (ELVs) will be used primarily for the Delta launch vehicles to support NASA missions scheduled for launch in FY 1983 and subsequent years. These missions are the Infrared Astronomy Satellite and Landsat-D' launched from the Western Space and Missile Center and the Active Magnetospheric Particle Tracer Explorer launched from the Eastern Space and Missile Center.

Major funding for the ELV program continues to come from the reimbursable users of NASA ELV launch services: the DOD for navigation and communications satellites; and NOAA for weather satellites and a variety of domestic and international commercial communications payloads.

SPACE SCIENCE AND APPLICATIONS

The budget request for Space Science and Applications totals $998.3 million in FY 1983. Although the request is constrained, most of the spacecraft development projects presently underway continue unchanged. The funds will continue, as planned, the development of the Landsat-D advanced remote sensing satellite scheduled for launch later this year. The

Space Telescope development is also proceeding on plan for launch in 1985.

The Galileo Jupiter orbiter and probe mission will also be launched in 1985, as planned. However, the launch vehicle will now be the two-stage IUS instead of the Centaur. This change of launch vehicle will require adding a propulsion stage to the Galileo spacecraft and modifying the trajectory so that the spacecraft will pick up energy by means of an earth flyby. The Jupiter arrival date will be delayed by approximately two years with some increase in mission operations costs. The restructured single-spacecraft International Solar Polar Mission will also be launched on a two-stage IUS with an additional propulsion module. The launch date remains in 1986.

Development of the Earth Radiation Budget Experiment is also proceeding smoothly. We will be ready to launch in 1983, though the actual launch dates that NOAA can support are currently under review. We will be prepared to launch our part of the Search and Rescue mission this year. Development of the experiments selected for flight on the Upper Atmosphere Research Satellite will assure, if full development of this mission is approved and initiated, that these instruments will be ready.

The Gamma Ray Observatory will move into its hardware phase for both spacecraft and instruments. Development is still proceeding on a schedule leading to launch in 1988. The Venus Orbiting Imaging Radar mission will not be funded in FY 1982 or FY 1983, in effect cancelling the mission.

Our Shuttle spacelab payloads program is moving ahead well. Payload flights on the STS support virtually the entire scope of science and applications disciplines. The life sciences and materials processing programs rely on the low gravity environment of space to resolve basic physiological and physics questions. Remote earth sensing payloads, such as the Radar Imaging Systems flown on STS-2, utilize the near-earth vantage point of the Shuttle orbit to gain valuable insights on the significance of surface features and the processes that have formed and continue to form our earth. Physics and astronomy payloads use the Shuttle orbiter to look outward from the earth to study the sun and its effects on the Earth and to study phenomena occurring at the outermost reaches of the universe. We are now planning to use Spacelab flights to make detailed observations of Halley's Comet during its apparition in 1986.

In the Explorer program, which recently launched two science and applications research satellites, the Solar Mesosphere Explorer and the Dynamics Explorer, the development of the Infrared Astronomy Satellite and the Active Magnetospheric Particle Tracer Explorer will continue with the launch of the InfraRed Astronomy Satellite now scheduled for later this year. We will soon initiate development of the Cosmic Background Explorer. This series of low cost missions has made and will continue to make major contributions to science and applications objectives, albeit at a somewhat slower pace than anticipated earlier.

Supporting activities included in the request run from major continuing applications projects to balloon, aircraft and sounding rocket flights to small university research efforts. The geodynamics program uses sophisticated ground-based as well as space-based systems to improve our understanding of the dynamic processes occurring at the earth's surface. Research efforts at universities continue the analysis of data from past programs, carry out complementary laboratory and theoretical research, and help us develop new program concepts. The supporting programs also make a substantial contribution in advancing technology so that these future missions can be accomplished. Such technology development ranges from large scale activities such as those in Multispectral linear array technology to the small efforts in defining individual instrument concepts.

AERONAUTICAL RESEARCH AND TECHNOLOGY

A total of $232 million is requested for Aeronautical Research and Technology. The request will provide for technology advances in all aeronautical disciplines, stressing the technology areas judged to be the most critical. The FY 1983 budget preserves a strong research and technology base in aerodynamics, propulsion, materials and structures, aircraft controls and guidance, and human factors, and maintains the experimental facilities and people dedicated to aeronautics at the NASA research centers.

Advances in fundamental research and technology efforts will be supported in the FY 1983 budget. Nonintrusive experimental test techniques and the development of analytical and computational methods will help us better understand and predict aerodynamic characteristics associated with the flow of air over a variety of aircraft shapes in order to reduce drag and improve performance. Computational methods will be used to predict complex internal flow through rotating blade rows in turbomachinery and to model combustion processes in engines in order to control emissions and better understand the impact of alternative fuels on engine performance. Research will continue on metallic, ceramic, polymer, and composite materials necessary for high-temperature engine applications and lightweight airframe structures; and analytical methods will be used to improve life prediction and better understand and control the dynamic response of complex aircraft and engine structures. Other important advances are expected in electronics, aircraft control system software and architectural concepts and crew station technology necessary to model pilot behavior in a multivariable environment.

Included in the FY 1983 research and technology base are fundamental supersonic research, critical resources technology and advanced guidance and flight controls research. The discipline and vehicle-oriented research and technology base efforts in the various speed regimes will continue to pursue wind-tunnel investigations on advanced aircraft and rotorcraft concepts and technology for future military aircraft, and to examine the effects of promising technology advances individually and in combination.

We will also pursue systems technology efforts in the areas applicable to high-speed and low-speed aircraft. These efforts are directly interdependent with Department of Defense aeronautical research programs and will be the only focused systems technology activity within NASA. The high-speed activity will investigate advanced technology and new configuration approaches in cooperative wind-tunnel and flight research programs with the Air Force, Navy, and Defense Advanced Research Projects Agency (DARPA). Activity in FY 1983 will involve a variety of high-performance aircraft to investigate advanced concepts, including: the Advanced Fighter Technology Integration (AFTI) F-111 aircraft, the AFTI/F-16 aircraft and HiMAT Remotely Piloted Vehicle. The joint NASA/DARPA X-29A Forward Swept Wing flight demonstration program will undergo extensive wind-tunnel tests, computational analysis and ground tests in preparation for flight test in FY 1984.

The low-speed systems technology program will focus on joint NASA/Army rotorcraft technology activities. The rotorcraft effort will include research on new rotor configurations, using the NASA/Army Rotor Systems Research Aircraft, noise technology, full-scale rotor/fuselage interference tests and human factors research.

SPACE RESEARCH AND TECHNOLOGY

The FY 1983 Space Research and Technology request of $123 million will focus on maintaining a strong research and technology base in the disciplinary areas of aerothermodynamics, chemical propulsion, materials and structures, electronics and automation, and space power and electric propulsion. The funding requested will also continue activity in information, spacecraft, and transportation systems research and technology. These efforts are designed to study the interrelationships of discipline technology from an integrated systems point of view and are critical to the successful transition of technology from the laboratory to useful application. In addition, systems-level studies conducted within the research and technology base will continue to focus the disciplines and system research and technology activities in directions which will lead to maximum benefits from available resources. Finally, systems technology programs involving the extension of ground-based research and technology activities to space using Shuttle, Spacelab, and free-flying vehicles will be continued. During FY 1983, a number of space technology experiments will be performed aboard the Shuttle/Spacelab.

As a first step in addressing the future potential for maintenance of permanent manned presence in space, we have initiated an identification of the critical technology requirements to enable design and development of such systems. A Space Station Technology Steering Committee (SSTSC) has been established consisting of representatives from Headquarters and each of the NASA Centers. This Committee is in the process of identifying the top technology challenges and organizing working groups to develop and recommend technology plans that would underlie future options for such initiatives.

ENERGY TECHNOLOGY

NASA's role in the development of advanced technology for terrestrial energy has come at the request of the agencies directly involved in energy research and development and the Congress. We have funded some NASA energy work and supported the energy programs of the Department of Energy and other agencies. With continuing reductions in civil service manpower, these efforts detract somewhat from our ability to carry out our responsibilities for aerospace research. We have attempted to minimize this impact by choosing areas of activity which produce technology advances of potential benefit to aeronautics and space. However, as we look ahead, we find it will be necessary for NASA to phase out of support to energy programs by the end of FY 1983 in order to devote the available manpower to our traditional programs We will structure our plans such that the investments that have been made will be protected and a smooth transition to new management is carried out where appropriate.

SPACE TRACKING AND DATA SYSTEMS

To meet the requirements of all NASA flight projects, a total of $508.9 million is requested to provide for continuation of vital tracking, command, telemetry and data acquisition support for earth-orbital spacecraft, including all phases of the Space Shuttle flight program, as well as support for planetary missions, sounding rockets and research aircraft. Funds are also required for operations support for the mission control centers, computation and data processing facilities and communications. In addition, beginning in FY 1983, we have included the cost of the initial incremental lease payment for Tracking and Data Relay Satellite System (TDRSS) services.

Our two networks, the Spaceflight Tracking and Data Network (STDN) and the Deep Space Network (DSN) provide worldwide support for both near-earth orbiting satellites and deep space probes such as the encounter of the Voyager II spacecraft with Saturn in August 1981. These networks are preparing for a new era in data gathering capability with the advent of the TDRSS. Approximately fifty spacecraft, including the Space Shuttle and various planetary missions will be supported in FY 1983, along with intensive preparations for upcoming launches of approved programs such as Galileo, Space Telescope, Spacelab and TDRSS.

Some major activities to achieve economies during the past year include the closure of the ground STDN station in Quito, Ecuador, and the Tula Peak special purpose station in New Mexico, as well as a reduction in staffing at a number of tracking stations. Three 26-meter antennas of the Deep Space Network were also closed.

The TDRSS capability is planned to become fully operational in 1984. At that time, the TDRSS will support all low earth-orbit spacecraft which will permit the closing of the majority of the worldwide STDN network. All other space missions, including planetary missions, such as the Voyager II encounter of Uranus in 1986, interplanetary spacecraft, and highly elliptical earth-orbiting missions, will be serviced primarily from existing tracking station facilities in California, Spain, and Australia, which will be consolidated under the management of the Jet Propulsion Laboratory.

TECHNOLOGY UTILIZATION

For FY 1983, we are requesting $4 million for Technology Utilization to continue the transfer of NASA-developed technology to U.S. industry, the public and other Government agencies. This represents a significant reduction from the current FY 1982 level of $8 million. While our primary focus will be on the continuation of active publication and technology dissemination activities, we will increase our efforts to acquire larger user contributions from both the private and public sectors. For example, we plan to continue phase zero feasibility and planning efforts in technology applications to define public sector applications projects in conjunction with other mission-oriented Federal agencies, with the view toward shifting budgetary responsibility for resultant projects to those user agencies. In addition, we will study the possibility of converting NASA Tech Briefs and other publications to paid subscription.

INTERNATIONAL COOPERATIVE ACTIVITIES

During this period of fiscal restraint, no nation can afford to pursue fully all scientific and technological opportunities. As a consequence, the many benefits that result from international cooperation such as access to foreign funds, foreign scientific and technological expertise, and foreign research and development facilities, become even more attractive. The 1980's will be a decade in which NASA will realize the benefits of many international activities begun in the 1970's and will lay the groundwork for new and different forms of cooperation.

During the past year, several important milestones in some of our major cooperative projects were reached. For example, the Remote Manipulator System, which was developed, built and contributed by Canada, was successfully flown for the first time on STS-2 and operated extensively on STS-3. The European Space Agency recently delivered the first Spacelab flight unit to NASA; its maiden flight on the Shuttle is scheduled next year.

An increasing number of foreign nations are now well-equipped to participate fully in the exploration of space. Many have been actively involved for the past decade or more. Investments by foreign governments in space activities have steadily increased and we believe this trend will continue through the 1980's. This has the effect of generating competition in some areas, such as space launch vehicles, communications satellites and remote sensing systems. The United States must be prepared to meet this competition aggressively and we are taking a number of steps to help assure that U.S. space leadership is maintained. However, we need to keep in mind that these same increased capabilities and budgets can make foreign nations attractive as potential partners in future projects where it is in the U.S. interest to share costs or otherwise broaden support for its space activities.

CONSTRUCTION OF FACILITIES

The FY 1983 request for Construction of Facilities of $100 million has been limited to a constrained program that includes only minimum "hardcore" requirements in direct support of ongoing aeronautical and space programs and critical institutional base needs. Less than fifteen percent of the request is for new construction, while the majority of the requirements are for modification, rehabilitation, or repair of existing facilities which will permit better utilization of the present physical plant and preclude some facilities becoming serious repair or replacement problems.

Approximately one-fourth of the funds requested are for the Space Shuttle and payload facilities work. The major requirements are for modifications of the manufacturing plant for the External Tank. These are required to provide a higher production rate capability than is presently available.

Major facility projects required for adequate support of aeronautical research and development comprise approximately $26 million of this request. These include modifications of two key wind tunnels at the Langley Research Center to improve testing precision and productivity.

The budget request also includes the continuing minor facilities work (minor construction, repair, and rehabilitation and modifications) that is critical to preserving the unique research and development capabilities of the NASA physical plant.

RESEARCH AND PROGRAM MANAGEMENT

The Research and Program Management request for FY 1983 is $1,178.9 million. About three-fourths of this account is required for civil service personnel salaries and related costs. About two percent is for travel which is vital to the management of our research and development programs. The balance is for facility support and related goods and services.

In 1981 two major institutional changes were implemented to improve the efficiency and effectiveness of operations. Last spring, Dryden Flight Research Center was made an integral part of the Ames Research Center, and the Wallops Flight Center part of the Goddard Space Flight Center. These actions were taken to focus the resources of each installation on what it can do best. The close relationship between Ames' and Dryden's efforts in aeronautical programs and Wallops' and Goddard's efforts in sounding rocket and airborne experiment programs provide an opportunity to improve overall program effectiveness through these consolidations.

Last fall an organizational change was made in Headquarters to assure the proper delegation of authority to all line managers, to set forth a clear distinction between line and staff, and to simplify and clarify field centers' reporting lines. The chief institutional change was to place centers under the managerial control of the program office from which they had already been receiving most of their programmatic directions. The Johnson Space Center, the Kennedy Space Center, the Marshall Space Flight Center and the National Space Technology Laboratories report to the Associate Administrator for Space Transportation Systems; the Ames Research Center, the Langley Research Center and the Lewis Research Center to the Associate Administrator for Aeronautics and Space Technology; and the Goddard Space Flight Center to the Associate Administrator for Space Science and Applications. As noted earlier, we are also in the process of merging the Offices of Space Transportation Systems and Space Transportation Operations to prepare for the operational period ahead.

In FY 1982, we are reducing our permanent civil service work force by 221 below the amended 1982 budget. This brings the civil service reduction from the original 1982 plan submitted a year ago to 1,061, a reduction of almost 5 percent. In 1983, we will reduce the permanent civil service work force by another 433, and NASA will be at its lowest civil service complement in over 20 years. We believe that we can achieve these reductions in a manner to minimize detrimental impacts, on NASA's programs and capabilities and on the individuals involved, while supporting fully our national commitments.

Requested increases, other than those for personnel and related costs, reflect only the amounts required to meet expected FY 1983 levels for support service contractor wage rates, utility rates and price levels for supplies, materials, equipment and other purchased services.

Even with significant civil service personnel reductions, NASA has been able to improve the ratio of minority and female professional employees in the Agency work force. In 1981, the ratio of minority professionals rose from 8.1 percent to 11.6 percent. Consequently, minority and female professionals now make up 20 percent of NASA's professional work force and 28.5 percent of the total work force.

CONCLUSION

In conclusion, this request represents a program which supports the major priorities of the Administration. It fully funds the Space Shuttle program and those aeronautics and space efforts related to national security while deferring or eliminating programs which could be performed by the private sector. In this context I believe it represents a balanced program which will provide the basis for future programs to exploit the full potential of the Space Transportation System.

BUDGET SUMMARY
(Thousands of Dollars)

	Budget Plan		
	FY 1981	FY 1982	FY 1983
RESEARCH AND DEVELOPMENT			
Space Transportation Systems	2,728,600	3,090,100	3,467,800
Space Shuttle	1,995,000	2,163,000	1,718,000
Space flight operations	679,200	895,900	1,707,000
Expendable launch vehicles	54,400	31,200	42,800
Space Science	541,488	568,000	682,000
Physics and astronomy	323,700	323,500	471,700
Planetary exploration	175,600	205,000	154,600
Life sciences	42,188	39,500	55,700
Space and Terrestrial Applications	340,350	333,800	320,300
Space applications	331,550	325,800	316,300
Technology utilization	8,800	8,000	4,000
Aeronautics and Space Technology	384,000	344,000	355,000
Aeronautical research and technology	271,400	233,000	232,000
Space research and technology	110,700	111,000	123,000
Energy	1,900	---	---
Tracking and Data Acquisition	339,900a/	402,100a/	508,900
TOTAL RESEARCH AND DEVELOPMENT	4,334,338	4,738,000	5,334,000
CONSTRUCTION OF FACILITIES	116,950a/	98,700a/	100,000
RESEARCH AND PROGRAM MANAGEMENT	1,071,064	1,144,700b/	1,178,900
TOTAL	5,522,352	5,981,400	6,612,900
OUTLAYS	5,421,300	5,826,500	6,576,100

a/ Reflects reprogramming of R&D funds to CoF: 1981 program $1.2M, 1982 program $2.9M.
b/ Includes increased pay costs of $41.4M.

CHAIRMAN'S QUALIFICATIONS TO PILOT SHUTTLE

Senator GARN. Before we start with the questions, as you know, it is not possible for me to conduct any of these hearings without making sure that it appears in the record my desire sometime in the future to personally check out the Space Shuttle so that we can provide continuing appropriations. I do really think that it is a necessity that Congress check things out they vote for and make certain that funds are being spent adequately.

But rather than just expressing that desire in the record, I thought it might be helpful to also include in the record today some factual data rather than just my opinions. Looking at the six crew members who have currently gone into space and the Space Shuttle, and the two that are about to go, I would note of the eight, all of them are either Navy captains or full colonels except one, Commander Mattingly.

I would note, forgetting that I am a Senator, that my rank is a full colonel in the Air Force. So my rank is consistent with the seven out of eight.

I also would note that the ages are not the typical young fighter pilot that they used to be, but 51, 44, 49, 44, 46, 45, 46, and 48. I would say at 49, Colonel Garn's age is consistent with the Space Shuttle crews.

I look at the aircraft time and 8,000 hours for Captain Young, 5,000 for Captain Crippen, 10,000-plus for Colonel Engle, 6,000-plus for Captain Truly, 9,000-plus for Colonel Lousma, 5,400-plus for Colonel Fullerton, 6,300 for Commander Mattingly, and 5,500 for Colonel Hartsfield. I would submit only Joe Engle has as much flight time as I do, in excess of 10,000.

I thought it might be useful for the record to let people know that the qualifications that I see of those who are going are very very similar in all aspects. I have no problems with getting excess hair in the mast or anything like that [laughter] which would cause them not to have a tight seal. I would hope in the future you would consider that my qualifications are rather similar and it might be necessary to have a Senator kick the tire.

Senator HUDDLESTON. If the Senator would yield. If the chairman is suggesting that future meetings of this subcommittee are going to be out of this Earth in outer space, I think you have to exclude the ranking member. [Laughter.]

Senator GARN. I am not suggesting that at all. I am entirely willing to make the sacrifice and make a personal report to all other members of the subcommittee.

I would ask unanimous consent that all of the details in this report be included in the record.

[The information follows:]

STS OFT Crews

STS	Crew	DOB (Age)	Aircraft Time	Total Space Flight Time (Hrs:Min)
1	Capt. John W. Young (USN)	9/24/30 (51)	8000	587:51 (21:28 EVA)
	Capt. Robert L. Crippen (USN)	9/11/37 (44)	5000	54:20
2	Col. Joseph H. Engle (USAF)	8/26/32 (49)	10,000 +	54:13
	Capt. Richard H. Truly (USN)	11/12/37 (44)	6000 +	54:13
3	Col. Jack R. Lousma (USMC)	2/29/36 (46)	9000 +	1619:14 (11:02 EVA)
	Col. C. Gordon Fullerton (USAF)	10/11/36 (45)	5400 +	192:05
4	Cmdr. Thomas K. Mattingly II (USN)	3/17/36 (46)	6300	265:51 (1:13 EVA)
	Col. Henry W. Hartsfield, Jr. (USAF)	11/21/33 (48)	5500	

NASA BUDGET JUSTIFICATIONS

Senator GARN. Throughout your budget justification, you explain a number of decreases as the result of the general reduction in the appropriation. As you know, the congressional action on your fiscal year 1982 appropriations resulted in additional funding of $185 million over the September budget request. Had you actually prepared a September operating plan, most of these items would have appeared as additions rather than reductions to that plan. I just want to take this opportunity to set the record straight on that issue.

In fiscal 1982, you requested $105 million for the production of the Shuttle orbiter main engine. Your revised fiscal year 1982 plan calls for $144 million. In fiscal year 1982, you are requesting $262 million for an increase of $118 million over the current plan, or 82 percent.

While it is understandable that additional funds will be required for the main engine procurement program, your justification on page RD 1–20 does not contain a cost estimate for any part of that $118 million increase nor, in fact, does it contain a cost breakdown for the $262 million total request.

As another example, this year you are requesting $1,316,600,000 for Shuttle operations. Your current fiscal year 1982 plan is estimated at $435.3 million for this activity. Thus the increase recommended is $881.3 million, or threefold, over the 1982 level. I know that we are expecting to have five flights in fiscal year 1983 versus the three in fiscal year 1982, but the justification contained in pages RD 2–25 and RD 2–26 for this $881.3 million increase also does not contain any breakdown on costs. In fact, only one sentence is used to justify this cost increase and it is:

> Major increases in fiscal year 1983 above the current estimate for fiscal year 1982 are the result of increased costs associated with the buildup in the number of operational flights.

I hardly consider this a significant justification for a $1.3 billion request.

I want you to understand, I am not complaining about the increase. In fact, I am in favor of it. However, I do feel that the justification is not as complete as we ought to have. Is it possible for you to provide that justification for the record?

Mr. BEGGS. We certainly could.

If I might make a brief comment, Mr. Chairman. The increases in the fiscal year 1983 budget reflect a buildup not only in the flight rate, but a buildup in the production rate of the expendable items, the solid rocket boosters and other parts that are required to build up to a rate over the coming 2 or 3 years to sustain the increased number of flights.

As you know, we are flying 3 times in fiscal year 1982, we are flying 5 flights in fiscal year 1983, and we will build up to 10 and on to a flight rate of 24. Then we hope to go significantly beyond that, perhaps up to 40 flights per year. But we will give you more complete backup for the numbers that are in the fiscal year 1983 budget request.

[The information follows:]

Material for the Record on page 12, line 7, by Senator Garn during the hearing before the Senate Subcommittee on HUD-Independent Agencies on May 5, 1982.

The funding profile of the total main engine requirements for FY 1982 and FY 1983 is as follows:

	FY 1982	FY 1983
	($ in millions)	
DDT&E	$130	$ --
Production	144	262
TOTAL	$274	$262

The FY 1983 main engine production estimate of $262 million includes the engine life testing effort ($106 million) which is funded in FY 1982 in Shuttle main engine development under the Design, Development, Test and Evaluation (DDT&E) program. This is consistent with our budget planning over the past several years of concluding the DDT&E funding with the accomplishment of the planned orbital flight test missions and funding the few remaining development activities after the last orbital flight test (STS-4) in Shuttle Production.

	FY 1982	FY 1983
	($ in millions)	
Shuttle Operations	435.3	1,316.6

Shuttle Operations funding provides for the hardware and services necessary to conduct launch, on-orbit activities, recovery, and refurbishment of the Space Shuttle. This funding also provides for maintenance and repair of the Space Shuttle as well as replenishment spare hardware required during operational flights. The major elements of Shuttle operations include: procurement of external tanks; solid rocket boosters and propellants, vehicle ground operations for refurbishment and turnaround activities, mission operations and crew training, cargo and vehicle integration, procurement of spare ground and flight hardware including spare main engine components, and logistics, transportation and sustaining engineering.

The principal factors in the increase in funding requirements for FY 1983 over FY 1982 are: (1) the increase in rate of production of external tanks and solid rocket booster hardware consistent with the buildup of operational flight activity, and (2) the phase over from development flight testing to operational flight missions beginning in FY 1983. Many of the operational type activities conducted during the developmental phase under DDT&E funding are transitioned into the Shuttle Operations program in FY 1983. More specifically, the funding requirements are as follows:

	FY 1982	FY 1983
	($ in millions)	
Solid Rocket Booster	143.5	243.9
External Tank	176.3	273.1
Shuttle Main Engine	7.1	45.3
Propellants	.9	8.5
Orbiter Hardware Support	12.9	136.4
Crew Equipment	8.0	24.5
Flight Operations	60.8	219.0
Launch Operations	--	304.0
Ground Support Equipment Spares	1.0	19.9
Test Support and Other related activities	24.8	42.8
TOTAL	435.3	1316.6

Solid Rocket Booster includes prime contractors' activities to provide solid motor reusable and expendable hardware, booster hardware, both reusable and expendable, and labor to support refurbishment of hardware to support operational flights.

External Tank includes prime contractor activities to support manufacturing, assembly and delivery of external tanks for operational flights.

Main Engine includes prime contractor activities for major engine overhauls, spare parts and sustaining engineering associated with overhaul, refurbishment and anomaly testing.

Propellants include all flight and base propellants excluding solids. Also included are power system fuels and oxidizers, pressurants, purging gases and fluids and the plant cost at Michoud Assembly Facility for producing liquid hydrogen.

Orbiter Hardware Support includes replenishment and transportation of line replaceable units, shop replaceable units and depot maintenance manpower to support orbiter hardware maintenance during operations. Further, this includes the orbiter subsystem unique ground support equipment overhaul and repair, consumables and ancillary equipment. Some specific examples of major hardware are fuel cells, tiles for thermal protection, tape recorders, leading edge support structure, wheels, brakes and pyrotechniques.

Also included is a level of sustaining engineering manpower required to provide support to the Flight Software Laboratory and the Shuttle Avionics Integration Laboratory for ongoing operations as well as manpower to support redesign to reduce costs and anomaly testing.

Crew Equipment includes cost of replacement spares, replenishment hardware, field support and maintenance of crew related equipment. Major items of equipment are the Extra-Vehicle Maneuvering Unit (suits), portable oxygen systems, headsets, radiation instruments, survival radios, closed circuit TV and cameras.

Flight Operations includes operating, maintaining and modifying on-board avionics software and ground mission control systems; mission planning and documentation; and maintenance of simulators. Flight operations also includes support to crew operations, analytical integration and program support.

Launch Operations includes manpower required to conduct vehicle ground operations required to process the orbiter, external tank, the solid rocket boosters and main engine. Also identified with launch operations are contractor manpower required to operate and maintain the ground support equipment; conduct solid rocket booster retrieval operations; support to modification redesign, configuration identification and inventory control. Logistics, facility and engineering modifications and KSC program support are also included.

Also included is contractor manpower required to provide standard processing services for integration of the payloads with the orbiter vehicle.

Ground Support Equipment Spares includes replenishment spares for ground handling and ground support equipment used in launch processing at KSC. Some specific examples are solid rocket booster holddown posts, components for the tail service masts, valves for the hydraulic subsystems, liquid oxygen mail fill pumps, crawler shoes for the mobile launch platforms and magnetic tapes used in the launch processing system.

Test Support and Other related, activities includes provision for configuration management of MSFC systems, maintenance of program requirements documentation for each flight, MSFC test support, and system data reduction; in addition, contract administration costs for the Defense contract administration services provided for NASA contracts are included.

Mr. Beggs. The second comment that I want to make was that we are shifting from the design, development, test and evaluation—D.D.T. & E.—phases of the program into the full operational phase. What is represented in the budget request is a shift of the budget amounts for supporting Shuttle flights from the D.D.T. & E. account to the operational account. That account is growing very rapidly in anticipation of the higher flight rate.

General Abrahamson. The major item, as you mentioned, is the engine flight time testing.

Dr. Weiss. A very large portion of this amount is the move from the research and development budget to the operations budget for the Kennedy Space Center involvement in launching the orbital flight test missions. This large area of support including all of the Rockwell, Martin, and other contractors, and the manpower and related costs are moved, in a bookkeeping sense, to the operations budget. This very large transfer from D.D.T. & E. to operations is not an increase in the budget.

Senator Garn. Again let me say, I am in favor of the request, but in order to defend that request it is helpful if the subcommittee has better justification. So, if it is possible, I would like a comparison between the fiscal year 1982 and the fiscal year 1983 request on the major cost elements within each of your line items in your entire budget request.

Mr. Beggs. Yes, sir; we will certainly do that.

[The information follows:]

The following table is a comparison of the fiscal year 1982 versus fiscal year 1983 budget request:

COMPARISON OF FY 1982 CURRENT ESTIMATE TO FY 1983 BUDGET REQUEST

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
SPACE SHUTTLE	**2163.0**	**1718.0**	**-445.0**	
Design, Development and Evaluation	898.0	--	-898.0	Completion of OFT program in FY 1982; Continuation of OFT data analysis and other development activities in FY 1983 is included in production.
Production	1260.0	1585.5	+325.5	
Orbiter	860.0	933.5	+73.5	Increase due to provisions for OFT data analysis and other related development activities (+$68M); other (+$5M).
Main Engine	144.0	262.0	+118.0	Engine life demonstration--residual development testing included in production in FY 1983 ($106M); other ($12M).
Launch and Landing	63.0	67.0	+4.0	Headquarters allowance for changes and improvements.
Spares and Equipment	193.0	323.0	+130.0	Increased provisions for: orbiter/engine flight spares and crew equipment (+$55M); ET/SRB rate tooling (+$40M); ET production readiness and producibility ($32M); and other (+$3M).
Changes/Systems Upgrading	—	72.5	+72.5	Provision for initiatives to improve turnaround, safety and reliability and to reduce costs.
Performance Augmentation	5.0	60.0	+55.0	Full development start-up for filament wound case solid rocket booster.
SPACE FLIGHT OPERATIONS	**895.9**	**1,707.0**	**+811.1**	
STS Operations Capability Development	79.3	85.4	+6.1	
STS Upper Stages	23.2	32.0	+8.8	Increased IUS planetary development activity
Multimission and Payload Support Equipment	14.6	16.9	+2.3	Procurement of initial spares.
MCC Upgrading (Level II)	24.8	22.5	-2.3	Decreased requirements as upgrading proceeds and key elements are completed.
Payload and Operations Support	13.7	10.0	-3.7	Decreased due to completion of payload integration for OFT flights during FY 1982.
STS Operations Effectiveness	3.0	4.0	+1.0	Increase due to implementation of selected approaches based on FY 1982 studies.

TABLE A

	FY 1982 Current Estimate	FY 1983 Budget Estimate	△	
		($ in millions)		
Development, Test, and Mission Support/Engineering and Technical Base (ETB)	184.0	82.4	-101.6	
Research and Test Support	33.4	34.9	+1.5	Increased contractor support costs due to inflation, offset partially by decreases in level of support provided under ETB.
Operations Support	48.3	32.0	-16.3	Decreased level of support under ETB.
Data Systems and Flight Support	42.8	12.7	-30.1	Decreased level of support under ETB.
Launch Systems Support	59.5	2.8	-56.7	Decrease due to launch support being funded under Shuttle operations account.
Advanced Programs	8.8	11.9	+3.1	Increase in number of studies and tasks.
Spacelab	100.8	113.2	+12.4	Procurement of spares and hardware deferred from FY 1982.
STS Operations	523.0	1,414.1	+891.1	
Shuttle Operations	435.3	1,316.6	+881.3	Assumption of funding responsibility for launch operations and support, crew training and flight support, etc. carried in DDT&E in FY 1982; procurement of flight hardware consistent with the buildup in the mission model for FY 1983-1985.
Upper Stages Operations	67.5	63.0	-4.5	Decrease reflects phasing of procurements of upper stages.
Payload Support Operations	20.2	34.5	+14.3	Increases due to greater number of payloads which have to be supported in operational phase of the space transportation system.
EXPENDABLE LAUNCH VEHICLES	31.2	42.8	+11.6	
Delta	30.4	42.8	+12.4	Increased funding required for production and launch support of three NASA missions.
Scout	.8	--	-.8	Decrease due to completion of San Marco cooperative mission.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
SPACE SCIENCE	568.0	682.0	+114.0	
Physics and Astronomy	323.5	471.7	+148.2	
Space Telescope Development	121.5	137.5	+16.0	Increase is due to normal flight project development build-up to the peak year of funding which is FY 1983, leading to launch in 1985. Decrease for experiments reflects the fact that the experiment peak year was FY 1982, and FY 1983 is the beginning of the down-side of the experiment development curve.
Spacecraft	85.5	110.0	+24.5	
Experiments	36.0	27.5	-8.5	
International Solar Polar Mission	5.0	21.0	+16.0	The increase reflects the normal build-up of development effort for the auxiliary propulsion system (kick stage) which is required to accommodate an Inertial Upper Stage launch of the ISPM in 1986.
Spacecraft	.5	--	-.5	
Experiments	2.0	2.0	--	
Ground Operations	.5	1.0	+.5	
Auxiliary Propulsion System	2.0	18.0	+16.0	
Gamma Ray Observatory	8.0	34.5	+26.5	Normal flight project development effort buildup to accommodate initiation of spacecraft development and continued development of the scientific instruments, leading to launch in late 1988.
Spacecraft	3.1	19.5	+16.4	
Experiments	4.9	15.0	+10.1	
Shuttle/Spacelab Payload Development & Mission Management	40.0	81.4	+41.4	Buildup of Spacelab instrument development and mission management activities to support the currently planned level of Spacelab missions after Spacelab 1 and 2.
Explorer Development	33.3	34.3	+1.0	DE was launched in August 1981; therefore, the development funding is phased out in FY 1982.
Dynamics Explorer (DE)	.6	--	-.6	
Infrared Astronomical Satellite (IRAS)	12.6	--	-12.6	IRAS is scheduled for launch in 1982; therefore, the development funding is phased out.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Active Magnetospheric Particle Tracer Explorer	11.8	11.7	-.1	
Cosmic Background Explorer	2.5	16.1	+13.6	Normal buildup of flight project development activities leading to launch in 1986.
Other Explorers	5.8	6.5	+.7	Additional funds required for definition of future Explorer missions.
Mission Operations & Data Analysis	50.0	85.6	+35.6	
HEAO Extended Mission	5.0	2.1	-2.9	Phaseout of operations as all HEAO spacecraft have now reentered and the FY 1983 funds are for data analysis only.
SMM Basic Mission	.6	--	-.6	Completion of data analysis on first year of operations of SMM.
SMM Extended Mission	2.9	2.1	-.8	Phase-down of operational requirements due to problems with SMM which resulted in several instruments failing.
SMM Retrieval/Repair Mission	9.0	9.2	+.2	Normal buildup of activities in preparation for SMM Repair in 1984.
Space Telescope Operations	13.2	32.8	+19.6	Buildup of Space Telescope Science Institute activities, and of hardware and software efforts in preparation for a 1985 launch of Space Telescope.
Space Telescope Maintenance & Refurbishment	--	11.1	+11.1	Initiation of activities to define maintenance/refurbishment requirements and to initiate procurement of long-lead hardware elements.
Explorers	18.7	28.3	+9.6	Additional funds are required for IRAS operations and data analysis as IRAS is scheduled for launch in late 1982. In addition, the Science and Applications Computer Center upgrading efforts are building up.
Orbiting Astronomical Observatory	.6	--	-.6	

	FY 1982 Current Estimate	FY 1983 Budget Estimate	△	
		($ in millions)		
Research and Analysis	32.9	39.2	+6.3	
Supporting Research & Technology	21.0	25.2	+4.2	Part of the increase is a result of inflation from dollars of the FY 1982 Budget to dollars of the FY 1983 Budget, and the remainder of the increase provides for a slight growth in the definition of future potential missions.
Advanced Technology Development	5.5	6.1	+.6	
Data Analysis	6.4	7.9	+1.5	
Suborbital Programs	32.8	38.2	+5.4	
Sounding Rockets	26.2	28.8	+2.6	Part of the increase results from inflation, and part of it is required for an increase in the number of planned flight hours.
Airborne Research	4.2	5.9	+1.7	
Balloon Program	2.4	3.5	+1.1	
Planetary Exploration	205.0	154.6	-50.4	
Galileo Development	120.0	92.6	-27.4	Decrease is due to normal flight project buildup to peak year of funding and subsequent fall-off; FY 1982 was the peak year of funding for for Galileo, leading to a launch in 1985. The Ground Operations increase is required for the buildup efforts in preparation for mission operations after Galileo is launched.
	97.0	68.6	-28.4	
Experiments	12.0	8.0	-4.0	
Ground Operations	11.0	16.0	+5.0	
Mission Operations & Data Analysis	38.3	26.5	-11.8	
Voyager extended mission	17.3	14.0	-3.3	Reduction in the early preparation for Voyager's encounter with Uranus planned for 1986.
Pioneer Venus Basic & Extended Mission	4.0	--	-4.0	NASA is considering placing the Pioneers in a quiescent mode in order to allocate resources to higher priority projects.
Pioneer 6-11 Extended Mission	1.6	--	-1.6	
Planetary Flight Support	15.4	12.5	-2.9	Reduction of planned upgrading of mission control center capability at JPL.

	FY 1982 Current Estimate	FY 1983 Budget Estimate	△	
		($ in millions)		
Research & Analysis	46.7	35.5	-11.2	
Supporting Research & Technology	33.6	28.5	-5.1	The decrease will be accommodated by delaying some definition efforts on potential future missions and reducing lower priority research efforts
Advanced Programs	6.5	5.5	-1.0	
Mars Data Analysis	2.9	--	-2.9	
Halley's Comet Co-Investigations & Watch	2.0	1.5	-.5	
Infrared Telescope Mid-Level Facility	1.7	--	-1.7	
Life Sciences	39.5	55.7	+16.2	
Flight Experiments	14.0	24.0	+10.0	Buildup of flight experiment development which is consistent with the buildup of Spacelab missions planned for the next several years.
Research and Analysis	25.5	31.7	+6.2	
APPLICATIONS	325.8	316.3	-9.5	
Resources Observations	146.4	132.2	-14.2	
Landsat D	83.9	61.7	-22.2	
Spacecraft Systems and Sensors	44.4	19.8	-24.6	Decrease results from the normal declining funding requirement as a flight project nears launch readiness. Landsat-D is scheduled for launch in 1982, and the FY 1983 funding is required to complete development efforts on Landsat-D. The Ground System and Operations increase is required to complete development of the Thematic Mapper Image processing ground based facility.
Ground System	27.6	28.3	+.7	
Ground Operations	8.5	10.4	+1.9	
Investigations	3.4	3.2	-.2	
Extended Mission Operations	2.8	1.8	-1.0	The decrease is due to the phased-down operating level of Landsat-2 and -3 after the launch of Landsat-D, and the Magsat decrease is due to nearing completion of data analysis activities.
Landsat-2 and -3	2.6	1.7	-.9	
Magsat	.2	.1	-.1	

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Shuttle/Spacelab Payload Development	3.3	2.8	-.5	
Payload Development	1.6	1.5	-.1	The decrease is due to the completion of development efforts for the payloads which will be flown on the first available Shuttle flight.
Large Format Camera	1.7	1.3	-.4	
Geodynamics	22.9	26.2	+3.3	
Crustal Dynamics Project	14.0	16.5	+2.5	The increase is due to inflation, plus a slight increase in crustal dynamics efforts and laser network operations.
Laser Network Operations	6.9	7.0	+.1	
Research and Technique Development	2.0	2.7	+.7	
AgRISTARS	14.0	15.0	+1.0	
Technique Development	1.7	2.8	+1.1	The increase is due to a slight buildup of technique development activities.
Supporting Research	7.4	7.4	--	
Early Warning, Soil Moisture, Domestic Crop and Land Use, etc.	4.9	4.8	-.1	The increase reflects a planned minor drop-off of domestic crop and land use activities.
Applied Research and Data Analysis	19.5	24.7	+5.2	
Renewable Resources	3.7	6.0	+2.3	The increases reflect the impact of inflation plus a slight increase in renewable and non-renewable resources activities. This increase is partially offset by a decrease in technique testing activities as well as the deletion of advanced studies. The multispectral linear array increase is the normal buildup of advanced technology development efforts initiated in FY 1982.
Nonrenewable Resources	4.3	6.6	+2.3	
Technique Tests	1.3	1.1	-.2	
Advanced Studies	1.5	--	-1.5	
Multispectral Linear Array	8.7	11.0	+2.3	
Environmental Observations	116.5	128.9	+12.4	
Upper Atmospheric Research Program	13.0	16.5	+3.5	The increases are due, in part, to the impact of inflation and in part, to a slight increase in the research support and balloon activities.
Research Support	11.7	14.9	+3.2	
Upper Atmospheric Research Balloon Program	1.3	1.6	+.3	

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Applied Research & Data Analysis	47.0	54.7	+7.7	The increases reflect the impact of inflation, plus a slight increase in basic investigations in research and technology and data analysis activities.
Stratospheric Air Quality	4.4	6.0	+1.6	
Tropospheric Air Quality	3.2	5.2	+2.0	
Global Weather	10.0	12.5	+2.5	
Severe Storms	6.6	7.0	+.4	
Ocean Processes	17.0	17.0	--	
Climate	5.8	7.0	+1.2	
Shuttle/Spacelab Payload Development	4.1	3.7	-.4	
Measurement of Air Pollution from Satellites	.5	.3	-.2	The decrease is due to the phaseout of the development efforts on the experiments for the measurement of air pollution from satellites which was flown on STS-2. The increase is due to the normal buildup of development efforts in preparation for launch of this experiment on Spacelab 3 in 1984.
Atmosphere Trace Molecules (ATMOS)	1.9	2.1	+.2	
Principal Investigator Instrument Development & Reflight Program	1.7	1.3	-.4	The decrease is due to the normal phasedown of activity as we near launch readiness in 1983.
Operational Satellite Improvement Program	6.0	6.0	--	
Earth Radiation Budget Experiment (ERBE)	24.0	24.0	--	
Spacecraft	13.3	15.1	+1.8	The increase for the spacecraft reflects normal buildup of development efforts. The sensors decrease is also the normal decline of efforts once the sensor development passed its peak year of funding. The MO&DA increase reflects a normal buildup in preparation for launch of ERBE.
Sensors	8.2	4.9	-3.3	
Missions Operations and Data Analysis	2.5	4.0	+1.5	
Extended Mission Operations	11.4	10.0	-1.4	
Nimbus-5, -6 and -7	8.4	8.2	-.2	The decreases reflect the phasedown of operational requirements of Nimbus 5, 6 & 7.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
SAGE	1.0	.6	-.4	SAGE has experienced operational problems and the decrease reflects the reduction of data return which will be available for analysis.
SME	2.0	1.2	-.8	The SME decrease reflects the normal phase-down of activity as the operational time of the mission matures.
Upper Atmospheric Research Satellite Experiment & Mission Definition	6.0	14.0	+8.0	The increase reflects the normal buildup of development efforts for the UARS experiments.
HALOE	5.0	---	-5.0	The deletion of funds reflects the cancellation of the HALOE spacecraft contract. The development will be brought in-house to be completed.
Applications Systems	13.2	11.7	-1.5	
Airborne Instrumentation Research Program	13.2	11.7	-1.5	The decrease reflects a reduction of planned flight hours.
Technology Transfer	5.0	--	-5.0	
User Requirements & Supporting Activities	3.0	--	-3.0	
Regional Remote Sensing Applications	2.0	--	-2.0	The decrease reflects the planned transition of Technology Transfer efforts to the private sector.
Materials Processing in Space	23.8	23.6	-.2	
Applied Research & Data Analysis	12.0	13.1	+1.1	The increase reflects the impact of inflation; plus a slight increase in the scope of materials studied.
Shuttle/Spacelab Payload Development	8.8	3.3	-5.5	The decrease reflects the phasedown of activities as the fluid experiments system/vapor crystal growth apparatus nears completion.
Materials Experiment Operations	3.0	7.2	+4.2	The increase reflects the buildup of activities directed toward increased materials processing flight opportunities made possible by the Space Shuttle.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Communications & Information Systems	20.9	19.9	-1.0	
Applied Research & Data analysis	10.0	5.1	-4.9	The decrease reflects the completion of the proof-of-concept communications component development.
Search and Rescue	2.3	3.7	+1.4	The increase reflects the normal buildup of development activities to evaluate the performance of the on-orbit search and rescue system.
Technical Consultation & Support Studies	2.6	2.6	--	
Experiment Coordination & Operations Support	1.0	1.0	--	
Information Systems	5.0	7.5	+2.5	The increase reflects a buildup of planned activities, such as the development of ocean and atmospheric pilot systems at JPL and GSFC; research and development of high priority data system standards and transportable software activities; etc.
Technology Utilization	8.0	4.0	-4.0	
Technology Dissemination	5.7	3.2	-2.5	The decrease reflects the phasing out of program evaluation and benefit analyses activities, as well as a phasedown of technology applications activities.
Technology Applications	2.3	0.8	-1.5	
AERONAUTICS	233.0	232.0	-1.0	
Research and Technology Base	162.5	182.0	+19.5	
Aerodynamics Research & Technology	29.2	42.3	+13.1	Increase for National Transonic Facility work, Class VI computer, Numerical Aerodynamic Simulator studies, and general aviation.
Propulsion Research & Technology	37.1	43.0	+5.9	Increase for advanced propeller concepts, rotary and reciprocating engine research, Lewis Class VI computer, combustion diagnostics and tribology scaling.
Materials & Structures Research & Technology	22.1	31.3	+9.2	Increase for safety related research and crash dynamics and composites materials research.
Aircraft Controls & Guidance Research & Technology	7.0	12.9	+5.9	Increase for safety related research and flight crucial controls and applied control theory research.
Human Factors Research & Technology	8.0	9.6	+1.6	Increase for single pilot cockpit display technology.
Multidisciplinary Research	6.0	3.5	-2.5	Decrease in both university study and graduate programs.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
General Aviation & Commuter Research and Technology	7.7	--	-7.7	Components transferred to propulsion, aerodynamics, materials and structures, and human factors research and technology programs.
Low Speed Research and Technology	11.3	12.4	+1.1	Increase for noise prediction.
High Speed Research and Technology	26.0	27.0	+1.0	Inflation.
Transport Research and Technology	8.1	--	-8.1	Components transferred to materials and structures and aircraft controls and guidance research and technology programs.
Systems Technology	70.5	50.0	-20.5	
Materials & Structures Systems Technology	6.6	--	-6.6	Integrated program for aerospace vehicle design and aeroelasticity of turbine engine program discontinued, turbine engine hot section technology transferred to high speed aircraft systems technology.
Propulsion Systems Technology	.5	--	-.5	Helicopter transmission technology deleted.
Avionics & Flight Control Systems Technology	1.3	--	-1.3	Transferred to Research & Technology Base.
Low Speed Aircraft Systems Technology	25.6	30.0	+4.4	Increase in advanced rotorcraft technology for instrument flight, wing, and noise technology and certification.
High Speed Aircraft Systems Technology	7.7	20.0	+12.3	Increase due to inflation, transfer of turbine engine hot section technology and flight research requirements.
Transport Aircraft Systems Technology	13.4	--	-13.4	Termination of laminar flow control, energy efficient transport, composite primary aircraft structures and terminal configured vehicle with elements of Terminal Configured Vehicle transferred to the Research and Technology Base.
Advanced Propulsion Systems Technology	15.4	--	-15.4	Termination of the energy efficient engine and advanced turboprop programs.
SPACE RESEARCH AND TECHNOLOGY	111.0	123.0	+12.0	
Research and Technology Base	105.2	115.6	+10.4	
Aerothermodynamics Research & Technology	7.9	8.8	+.9	Inflation.
Chemical Propulsion	13.7	15.5	+1.8	Increase in effort on advanced high pressure, oxygen-hydrogen engines.
Materials & Structures	14.1	15.1	+1.0	Increase for materials research for large space antennas and space stations.
Electronics & Automation	8.1	9.5	+1.4	Increase in machine intelligence and robotics
Space Power & Electric Propulsion	18.5	20.0	+1.5	Increase in long term research for fuel cell/electrolysis cell energy storage system and ion thrusters.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Multidisciplinary Research	2.7	3.5	+.8	Increase in long term research.
Information Systems	22.9	24.0	+1.1	Inflation and refly the feature identification and location experiment.
Spacecraft Systems	9.1	10.4	+1.3	Increase for the conceptual development of an autonomous spacecraft system.
Transportation Systems	8.2	8.8	+.6	Inflation in orbiter experiments.
Systems Technology	2.8	4.4	+1.6	
Spacecraft Systems Technology	2.8	4.4	+1.6	Increase for replenishing long duration exposure facility and launching payload experiments.
Standards and Practices	3.0	3.0	--	
TRACKING AND DATA	**402.1**	**508.9**	**+106.8**	
Operations	300.5	338.2	+37.7	Funding required to support TDRS related ground systems testing and Network Control.
Spaceflight Tracking & Data Network	143.6	184.5	+40.9	Center initial operations. Transfer from data processing.
Deep Space Network	63.4	61.3	-2.1	Closure of the 26-meter subnet (offset by escalation).
Aeronautics & Sounding Rocket Support	6.6	6.9	+.3	Continues support to ongoing sound rocket, balloon and aeronautical research activities.
Communications Operations	39.8	45.6	+5.8	Increases include activiation and test of the 50 megabit digital wideband service from TDRSS.
Data Processing	47.1	39.9	-7.2	Transfer of the orbit determination and computation functions to STDN line item.

	FY 1982 Current Estimate	FY 1983 Budget Estimate ($ in millions)	△	
Systems Implementation	89.1	96.0	+6.9	
Spaceflight Tracking & Data Network	26.0	22.4	-3.6	Continues effort on equipment modifcations and implementation for TDRSS operations.
Deep Space Network	36.9	44.8	+7.9	Increases to reconfigure the DSN into a consolidated network.
Aeronautics & Sounding Rocket Support	6.2	3.8	-2.4	To continue support in aeronautics & sounding rocket areas.
Communications	4.4	5.6	+1.2	Continues NASCOM network support.
Data Processing	15.6	19.4	+3.8	Continues support for replacement of computer complex.
Advanced Systems	12.5	13.4	+.9	Continues effort to study and develop new and improved techniques in tracking and data systems.
TDRSS	—	61.3	+61.3	To initiate repayment for TDRSS to the FFB.
TOTAL RESEARCH AND DEVELOPMENT	4738.0	5334.0	+596.0	

LEGISLATIVE CAPS ON SPENDING FOR LARGE PROGRAMS

Senator GARN. This year, like last year, you are requesting that we remove the specific legislative caps included in the bill language.

Why do you believe that listing upper spending limits for large programs such as the Space Shuttle, Project Galileo, Space Telescope, and Landsat-D should not be included in the committee's legislative language?

Mr. BEGGS. The primary argument, Mr. Chairman, from our side is the limitation of flexibility on the overall program. We do and have had over the years problems which occur in funding one or the other programs where it would be convenient to not have them capped and be able to take administrative action to supplement or perhaps move things within an account to resolve specific problems that occur during the year.

I have no strong objection to the caps as a principle, but sometimes we are dealing with relatively small numbers. For example, in the Space Telescope, this year we have incurred a $2 million problem in that program and the ability to be able to move funds enables us to solve those kinds of problems without coming to the committees and asking for reprogramings for what I consider to be relatively small chips of funds.

Senator GARN. That may be true in some of the smaller ones. As you know, one of the nine items on the list is the space transportation systems operations—upper stages. The existence of this cap has allowed us to review your recommendation to drop the Centaur and go with the IUS. In this sense, I find the existence of these caps quite consistent with our oversight responsibility. There have been some difference of opinions of these items, as you well know.

Mr. BEGGS. Yes, sir.

Senator GARN. But I understand there are some items, obviously small amounts, that come back to us to get approval that causes some problems. Maybe we can work on this issue in order to further clarify the larger items. But I do think to have some caps gives us some consistency in our oversight responsibility.

Mr. BEGGS. I have no great problem with the caps as a general principle. I think that if you cap everything, however, the problem becomes acute when you do have problems within programs. Hardware programs have a life of their own once you start them. The importance attached by a contractor or even the in-house people who are working to maintain continuity and keep the thrust of the program moving means if we have a need for money and want to keep the program moving, we have got to keep the program around.

If you feel that caps on the major programs give you a degree of control that you need, we have no objection.

REDUCTION IN PERMANENT WORK FORCE

Senator GARN. During the discussion of your fiscal year 1982 budget request, you informed us that you would have to reduce your permanent civil service work force by 840. In your opening statement, you indicate that you will be required to reduce your permanent work force an additional 221.

Please explain the justification for the additional personnel reduction?

Mr. BEGGS. The 221 reduction was imposed by OMB on the agency before we made the justification. The understanding that we currently have with OMB is that we will reduce to approximately 21,000 equivalent work-years for full-time permanent personnel by the end of fiscal year 1983 and we will hold at that level. That will be a level which we can consider to be the manpower on board for the next several years.

It was because of that reduction that Dr. Mark and I, in our discussions about the overall problem of maintaining our work force at a reasonable level, thought it was well worth taking those cuts in fiscal years 1982 and 1983, reducing to what we believe will be a level we can live with. We will, thereby, be allowed to maintain a stable work force over the next several years. I think that, for the agency, is a very, very important decision because the agency has reduced manpower almost every year in the past 10 years. We have come down since the Apollo years from 35,000 to 21,000—it is a very large reduction. We felt it was necessary for the future to get a stable number around which we can plan.

Senator GARN. Under your current budget request for research and program management, you will have to reduce your work force by another 433 employees?

Mr. BEGGS. That is correct.

Senator GARN. Is that consistent with what you say now?

Mr. BEGGS. Yes, sir.

Senator GARN. How will these reductions be accomplished?

Mr. BEGGS. We believe that almost all of them can be taken through attrition. It is possible that there will be a reduction in force used, but only in cases where we have very specific problems in a particular section. Most of the reductions should take place either through retirement or normal attrition.

Senator GARN. How do you feel these additional reductions will affect your skill mix?

Mr. BEGGS. If we can do it as we have done for the first 6 months of fiscal year 1982, we should be in very good shape with respect to our scientists and engineers, which is the key category as far as we are concerned. The supporting people, of course, are important and so far we have been able to maintain the ratios fairly close to where we like to see them.

Dr. Mark, would you like to comment on that?

Dr. MARK. I would like to add one point.

The reductions we are facing are sufficiently small so that we will actually have considerable hiring authority in these 2 years and that we will be able to bring on board significant numbers of new people who have just graduated. Mr. Beggs and I plan to pay personal attention to the procedures by which we will select these people because we think we have an opportunity to really do some renewing of our work force.

Senator GARN. Thank you.

Senator Huddleston.

NASA'S DECISIONS AFFECTING HEALTH OF NATION

Senator HUDDLESTON. Thank you, Mr. Chairman. I am also delighted to have the witnesses from the National Aeronautics and Space Administration. I am a great admirer of the accomplishments of your agency and I think all Americans have a sense of pride in what NASA has been able to do. I think the process, or the progress and the development, of the space transportation systems is indicative of that and once again demonstrated what you can accomplish.

I am, however, concerned over your recent decision to cancel the Centaur upper stage contract, over the failure to move ahead with an adequate advanced communications program, over proposed reductions in technology applications, and over the uncertainty which appears to confront the remote sensing program. Failure to proceed in these areas seems to me shortsighted and to the Nation's longer term detriment. I think it would be a mistake to attempt to rest on our laurels, as impressive as they may be at this time.

COMMUNICATIONS TECHNOLOGY

Let me start by asking a question on the communications program known as the 30/20 GHz program, which apparently has been abandoned and has been replaced by the so-called advanced communications technology program.

Is NASA committed to this new program?

Mr. BEGGS. Yes, sir, we are. I think it might be worthwhile going into the background of that decision, if we may.

The argument that we made was that 30/20 GHz area is an important one and that NASA should be active in the development of the technology that will enable the industry to move into that area in the fairly near future.

The original program encompassed the launching of a demonstration satellite that would demonstrate our technology. The idea of launching the demonstration satellite is the part of the program which we have abandoned.

However, we have been discussing with a number of companies in the industry the possibility of trying to reconstitute a satellite program in the future which would be industry sponsored. If we cannot get full industry sponsorship for that, we have to reconsider the initial decision. We are still hopeful that the industry will come forward and sponsor the satellite.

Senator HUDDLESTON. Would the new program include a test flight?

Mr. BEGGS. The NASA program does not. But my belief is that we can get the industry to sponsor the flight.

Senator HUDDLESTON. Is that where most of the savings is, in the test flight?

Mr. BEGGS. Yes, sir, almost entirely.

Senator HUDDLESTON. You are indicating that the new program will cost about half as much as the old one.

Mr. BEGGS. Yes, sir, that is correct.

Senator HUDDLESTON. Is that in the neighborhood of $250 to $300 million?

Mr. BEGGS. With the satellite, it is in that neighborhood.

Senator HUDDLESTON. Both the Europeans and the Japanese are developing similar programs. Can the revised program be in place in time to keep the U.S. communications industry competitive with the foreign operations?

Mr. BEGGS. I believe it can, but it is touch and go. The Japanese have a very active program and they moved out, I believe a couple of years ago, in developing that technology. They see an opportunity to move into our markets. So, to answer your question, they are actively developing their technology and have planned eventually to launch a satellite.

We are being challenged in the communications satellite area. It is an area where the United States used to have a near monopoly and now the Europeans are actively selling against us with current technology around the world. I expect that the Japanese will come in very soon. We are going to be watching very closely. I think the competitive measures are going to have to be sharpened, as necessary, to remain competitive.

PRIVATE SECTOR RESPONSIBILITY IN COMMUNICATIONS TECHNOLOGY

Senator HUDDLESTON. Do you have a time estimate when the first U.S. flight could occur under the revised private industry approach?

Mr. BEGGS. I have to refer to Dr. Edelson who is closer to that than I.

Dr. EDELSON. Senator, if we were able to proceed and come up with a flight test of the technology we are developing, the earliest that we could start would be fiscal year 1984, and the flight test could occur in late 1988.

Senator HUDDLESTON. How much time will be lost if you have to revisit this decision and, perhaps, change courses again, especially if private industry is not willing to carry through?

Dr. EDELSON. We have a program underway now. We are continuing our existing program for technology development. This means not only the 30/20 GHz components themselves, but all the other advanced communications technology that we see as being vital to the next generation of civil, Government, and military communications satellite systems. This program is going along very well and we are spending money this year for that ground-based research and development program.

We have several different approaches which we believe will be successful so that we can have participation of industry in the program to enable a flight test which will be roughly half the cost of the previous 30/20 GHz program, and proceed on the time scale that I just mentioned.

COST OF COMMUNICATIONS TEST FLIGHT PROGRAM

Senator HUDDLESTON. What is your spending profile on the new program in 1982 and 1983?

Dr. EDELSON. We are completing the design and component technology development with resources in fiscal years 1982 and 1983 budgets. We have canceled the new start for fiscal year 1983.

Senator HUDDLESTON. What are those figures? Do you have them?

Dr. EDELSON. The fiscal year 1982 number is $10 million and the fiscal year 1983 number is $5.1 million.

Mr. BEGGS. If I understand, you wanted the figures of what the program would cost if you went forward with the flight program. We don't have those handy.

Senator HUDDLESTON. These figures apply to the revised program?

Mr. BEGGS. Yes, sir.

Senator HUDDLESTON. What about the cost of a test flight program?

Dr. EDELSON. That is the number that we will have to provide for the record.

[The information follows:]

We are planning a detailed technical and cost review of our advanced communications satellite program this summer. We will provide you with the results of that effort as soon as they are available.

NASA'S ROLE IN LANDSAT

Senator HUDDLESTON. NASA will launch Landsat–D in 1982 and Landsat–D Prime is under development. However, managing operation of the Landsat system is being transferred to NOAA. NOAA has requested funding in its budget to plan for operating the system. Exactly what division of responsibility do you anticipate during fiscal year 1983 in this program?

Mr. BEGGS. The agreement that we have struck with NOAA on the Landsat is essentially just as we do on the meteorological program. They will be responsible for funding the full operational cost and we will continue to be responsible for the research and development of the upgraded and new technology. Then, they fund the purchase of the operational satellites. We will proceed over the next couple of years with the completion of the Landsat–D satellite mission which is the new technology system. Then, NOAA will take over and operate that system pretty much as they have in the case of the weather satellite program.

Senator HUDDLESTON. Does this transfer of responsibility mean that NASA, in effect, is losing a remote sensing role?

Mr. BEGGS. No. I think we will continue to pursue the research and development end of that program; but, we will step out of any role that we had on the operational side, such as dissemination of the data, the actual sale of, and distribution of, the ground-staging equipment.

Senator HUDDLESTON. You will still be in it technically?

Mr. BEGGS. That is correct.

Senator HUDDLESTON. And they will handle the application?

Mr. BEGGS. That is correct. I should say, the option of trying to find a commercial operator is still one of the several possibilities that are open. So far it does not appear that we have a very good proposal on hand, but it may be that one will come up.

Senator HUDDLESTON. Thank you, Mr. Chairman. I believe my time is up. Regretfully, I have to run over to Agriculture to help make a quorum for a markup. I will try to return; if not, I have other questions to submit for the record.

Thank you.

JUSTIFICATION OF SHUTTLE PRIORITY

Senator GARN. Thank you, Senator Huddleston.

Mr. Beggs, your total research and development budget for fiscal year 1983 is $5,334 million, or $596 million greater than your fiscal year 1982 level. While this represents an increase of 12.6 percent, it is also clear that over 60 percent of this increase is associated with the Space Shuttle.

Do you believe that the relative priority given to the Shuttle is justifiable?

Mr. BEGGS. We are in the period where we are encountering the highest expenditures that we expect to encounter in the Shuttle development program. It just happens that in the plan that was laid down there are 3 years of very heavy expenditures during the development and early operations where we are flying test flights and a few operational flights and do not receive sufficient reimbursements to offset a significant portion of our total operating cost. I think once we get through that period, the amount devoted to the Shuttle will come down and we will be able thereby to distribute any increases or any moneys which become available to the other programs.

I should make the point, however, that even with the allocation of 60 percent of the increase to Shuttle, we still increased the other accounts at a higher percentage than we increased the Shuttle. The Shuttle went up 12 percent and the other R. & D. accounts went up 14 percent. That, I am sure, is scant solace to some who have, as you said in your opening statement, been watching the real budget come down over the last 10 years. But, I would make the point that it is the first real increase we have had in those programs in some years.

TWO FLEETS OF SHUTTLES

Senator GARN. Some people have suggested that we should have two fleets of space shuttles—a military and civilian fleet.

What are your views on the desirability of such a plan?

Mr. BEGGS. I think the idea that perhaps some day the military will operate their flights to a large extent probably makes some sense in the long term. I would hope, though, that for a lot of reasons, not the least of which is economy, that we can maintain both a civilian and military program which will be standard and consistent. We have held a number of discussions with the Vandenberg folks and the people in the Space Division of the Air Force along the lines of utilizing services commonly which will save an awful lot of money for both NASA and for the Air Force.

The Air Force is finding, as they get more deeply into the operating phases of the Shuttle, that many of the things they thought they had to have at Vandenberg can be economically supplied from Kennedy. That, I think, is an important aspect. I would hope in the future we can keep all of the Shuttle hardware common so we can buy them using the same specifications. We can continue to operate in a similar way, using the same expendables and the same people. We will both save a good deal of money.

ORBITER FLEET SIZE

Senator GARN. Based on your current best estimates, what size fleet would be required to meet user needs during the 1980's and the 1990's?

Mr. BEGGS. We believe a five-orbiter fleet is desirable for the 1980's. We have four orbiters delivered or on order and we would like to see the fifth one bought. With the current flight rate that we are projecting through fiscal years 1987–88, we can get by very nicely with four. But, in 1987 and beyond, we expect to be building up to a higher flight rate and we would like, in that period, to have a fifth orbiter. I would add, if we were to order the fifth orbiter sometime before the production line shutdown, it will probably be delivered in the fiscal year 1987 time period.

SHUTTLE MANIFEST

Senator GARN. Assuming that you only had four orbiter fleet, how many flights are we likely to have during the remainder of the 1980's and 1990's?

Mr. BEGGS. If we can't get the fifth orbiter, and assuming that we have no major problems with the fleet in terms of having delays for any point in time for modification, I think the maximum we can anticipate building it up to is a rate of 30 or even 35 flights a year. I think anticipating 40 might be stretching it a little far without the fifth one. We are finding this machine turns around very well. We flew last year in April—it took a little over 7 months for the second flight, it took us a little over 5 to fly the third, and we are going to fly the fourth in about 3 months. We are coming down a very nice learning curve and the machine is proving to be very reliable. Each time it comes back in better shape. We are learning how to maintain and refurbish the subsystems very well. I think we can anticipate that we are going to be able to achieve the 6-week or better turnaround time in the fairly near future.

Senator GARN. What percent of these uses will be for military, commercial, and NASA purposes?

Mr. BEGGS. The current split is 30 percent for NASA, about 37 percent for the military, and about 33 percent for commercial and foreign users. But, I would like to comment that this is based on current planning and the planning shifts quite readily between the various users over the years.

Mr. Chairman, those percentages have changed from time to time and they will change again. But, it is my belief that in the outyears the commercial market will develop very rapidly. The communications market is growing at about a 30-percent rate per year in the world and I think we can anticipate a continuation because the world seems to be insatiable in its demand for communications. Therefore, I would expect to see those percentages change significantly and to see them move toward the commercial side.

Senator GARN. What are your most current estimates for additional orbiters?

Mr. BEGGS. I would like to qualify this with a couple of comments. The line is starting to shut down at the end of this year and some of the subcontractors are completing hardware they are responsible for. If we get an order in before the subcontractor network shuts down completely, I think we have an opportunity to save a good deal of money and the cost would be somewhere in the one and a quarter billion dollar range. I don't have an exact number because we don't have a current estimate from the contractor. We are about to get one. If we let a large number of our contractors go out of business, I think that price can rise to a billion and a half or above very readily.

COST SAVINGS ON SHUTTLE BLOCK BUY

Senator GARN. What kind of cost savings could be achieved if you had a multiple-buy contract?

Mr. BEGGS. I think I would like General Abrahamson to talk to that. There are definitely some savings available there; but, we don't have them fully assessed.

General ABRAHAMSON. In the Air Force, we experienced savings on certain multiple buys, or block-buy approaches, for higher production rate vehicles, anywhere from 10 to 15 percent and sometimes even larger than that, but an average is between 10 and 15 percent.

This approach for the Shuttle is a different kind of problem because we are dealing with a single large machine that is built over several years. An option that we are looking at is to include Orbiter 105 plus a buyout of spares and we would exercise this option if we were not able to project that the Nation would need a sixth orbiter fleet within a reasonable time frame. That does not allow any real savings in the final assembly of the orbiter; but, it does allow real savings where you purchase several parts of subcontract items, such as the avionics.

If it appears that we would like to reserve an option for the Nation to buy an additional orbiter at a future time, we would add an Orbiter 106 to above contractual option. We would write the contract to try to get a delay of approximately a year before we have made final contractual obligation for Orbiter 106. This may involve some additional termination liability associated with the long lead parts which we would procure. This is the contractual approach we are working on.However, we don't have the final numbers at this point. We do know that we must move very quickly on some of the subcontractor items. I have been startled as I have gone through the study effort to find that primarily in our avionics area, our third-tier vendors are running out of work. They have delivered the majority of their components to the second-tier vendors, so we are already facing a production gap at that lower level.

That isn't a very numerically specific answer but it is the approach that we are using.

Senator GARN. Senator Proxmire.

SHUTTLE COST PER FLIGHT

Senator PROXMIRE. Mr. Beggs, you are requesting roughly $1.3 billion for Shuttle operations in fiscal year 1983. According to an analysis the General Accounting Office performed at my request to determine the proportion of your budget that supports Deparment of Defense programs, 45 percent of this total request—$592.5 million—is for Shuttle flights in 1983 and the remainder is for advanced procurement. This means you are spending about $120 million in 1983 budget dollars for each of your five 1983 Shuttle flights. However, I assume that 1981 and 1982 budget dollars have also been spent for advanced procurement for the five missions that will be conducted in 1983.

Can you tell us what the total cost per flight will be, taking into consideration these 1981 and 1982 advanced procurement costs?

Mr. BEGGS. Cost per flight in 1983, Senator?

Senator PROXMIRE. Yes, sir.

Mr. BEGGS. I can't give you an exact figure for the total cost per flight simply because we have not segregated to the degree that would give you a great deal of precision between what we are spending on research and development and what we will spend on specific operations for the vehicle. If you want my guess, it is probably in the order of $150 million a flight in 1983 dollars.

SHUTTLE FIXED PRICE FOR DOD LAUNCHES

Senator PROXMIRE. Back in 1975 you negotiated a 6-year fixed price for DOD launches of $12.2 million per flight in 1975 dollars. I understand that this approximates $25 million per flight in 1983 dollars. Now I recognize that your cost per flight will decline somewhat as time goes on, but how can you justify charging DOD less than one-quarter of the actual cost of a Shuttle flight over the next few years?

Mr. BEGGS. Senator, that decision was made a long time ago as to how the pricing would be arranged on it. The program was priced on a basis over a mission model. That is normal in this industry. It is the way we sell commercial transports. It is the way we sell many products which have significantly long life and production runs and where you can't go into the market with the actual cost for the first unit but you go into the market with an average price and you hope, over the period of time, that your cost will work down to your projections. When they do, then you will, over the life of the program, do a little better than break even. That was the way this program was priced. So it was anticipated that there would be a large loss on the early flights, but as the program cost decreased and the flight rate went up, it would balance out. Then, we would collect the money.

Senator PROXMIRE. I can understand that under a commercial contract you would be stuck if you made that kind of commitment; here you are dealing with another agency of the Government. In view of the fact the estimate you have given us is $150 million a flight and the Defense Department is being charged effectively $25 million a flight, or one-sixth of the cost, it seems to me there ought to be some adjustment in the price you are charging DOD. Otherwise, it would seem there is a clear and conspicuous subsidy of the Defense Department by NASA.

I think that the military demands on space have top priority. I think there is no more important function. But it seems to me, if we want to keep our military priorities straight, we ought to charge, with our eyes wide open, the full cost of this kind of activity.

Mr. BEGGS. We have considered the possibility of raising the price to the military. We are in active discussions with them on some increase to that cost in the first 3 years which, of course, was a firm agreement between NASA and the military.

The other part of the equation, though, is that what the DOD did for their contribution to the program separately was to cover the cost of the development of the Vandenberg facility, which they do completely, and continue to do on a reimbursable basis for the special cost that we incur in NASA to handle their specific requirement. These items are the security requirements and other operations cost which reflect most specifically to their mission.

GAO REPORT ON SHUTTLE USER CHARGES

Senator PROXMIRE. A GAO report on Shuttle user charges concludes that the charges are fixed at such a low level that they will result in a $1.2 billion NASA subsidy to other users through 1985—and this $1.2 billion is in 1975 uninflated dollars. Almost half of this subsidy would be to the Department of Defense.

Here is what GAO concludes:

> At a time when NASA's programs are suffering due to budget constraints, they are locked into a pricing policy that encourages space transportation system use at NASA's expense and at the expense of the space science, applications, and aeronautics programs.

Do you agree with that judgment by the GAO?

Mr. BEGGS. I differ with them in a couple of respects. The problem in trying to separate cost that way is that the Shuttle program, as a single program, serves three users—DOD, NASA, and the rest of the Government. We think that service will be very beneficial to the NASA science program in the future, as well as commercial and foreign customers. We are developing the program for all three of those customers. If the DOD didn't use it at all, I think the Nation would still want to go forward with it. If we had developed the program and then the DOD decided they wanted to use it, I think we would all believe that desirable and we ought to sell it to them on an incremental cost basis. If they weren't planning on it and then wanted to use it, it would be a contribution to the whole program. The fact is, they are planning on it and have been since the beginning; therefore, they should be treated as one of the three. I don't believe we are subsidizing them any more than we are the other two customers; namely, NASA, other Government activities, and the commercial and foreign customers. But, again, over the mission model, we expect to fully recover the operational cost to the system.

With respect to aeronautics, our research and technology benefits both civil and military aviation. It is not at all clear when you enter into a research and technology effort that it is going to apply to the military aeronautics or to civil aeronautics. In fact, you find many cases where technology, which was aimed at one, ends up having its first application in another. I can tell you that many applications turn up in a military program when it is civil application you are looking for.

Senator PROXMIRE. And I am sure there is a very helpful constructive interplay between NASA and DOD, but, nevertheless, it does seem that the Defense Department is receiving a very big subsidy from NASA. The GAO report on the proportion of your budget that supports DOD programs indicates that almost $1.1 billion of the Shuttle's 1983 budget can be attributed to Defense activities.

Mr. BEGGS. Yes, sir; I understand that.

MILITARY FAIR SHARE OF SHUTTLE COSTS

Senator PROXMIRE. Why should not the Department of Defense pay those costs? I talk in terms of the Department of Defense, but obviously Congress and the administration both place a high priority on defense spending. We will provide in excess of $200 billion to DOD no matter what cuts are made in the President's 1983 budget. Why couldn't DOD pay their proportionate share of the cost of Shuttle operations?

Mr. BEGGS. Well, the $1.1 billion that you cited, Senator Proxmire, is not just for operations. The GAO included both the production cost and the Shuttle operations cost in that figure. As a matter of fact, almost three quarters of it is production cost by their analysis. But even if it were all in the other way, I would have to say that the decision was made some years ago that NASA would develop the system, would bring it to full operating capability, and would price it on that aforementioned flat price basis. Having made that decision, I think we ought to stick with it, because it does appear that we can move through this development period toward the period when the operating cost will be fully recovered. And I think we ought to continue the basis which we originally set out. The military will pay their fair share over the period of years.

Senator PROXMIRE. Meanwhile you have that much less available for scientific inquiry, the fundamental mission that most of us assume that NASA has. There is no question that NASA can and should contribute to the military effort to the best of its ability. However, under present circumstances, I believe we ought to pay for that contribution through the military budget. I can't for the life of me understand why we shouldn't do that because the budget pays for tanks, planes, and ships. We ought to pay for DOD's share of Shuttle costs through the Defense budget regardless of what kind of mistakes in judgment the executive branch made in the past.

My time is up. I will be back.

MILITARY SPENDING AT VAFB

Senator GARN. Let me ask one followup question on that.

You alluded to the military spending at Vandenberg. How much of that DOD expenditure is attributable to NASA uses?

Mr. BEGGS. I don't have the exact number, but I think we can develop a figure on the basis of the flights currently scheduled. Again, the current manifest, particularly as you get out beyond 1986, is not very good for making the judgments as to how much applies to both programs because it has changed and will change many times again over the coming years. But out of Vandenberg we are talking about something like 70 flights out of the 311 flight model, of which about 47 will be military and the others will be civil of one kind or another.

Senator GARN. The reason I ask—Senator Proxmire, let me have your attention on this. I am not disagreeing with you. NASA's budget, as I said in my opening statement, has not kept up with inflationary costs as Congress promised in 1975, but on the other hand I am trying to determine whether a situation exists where, although it appears that DOD is not paying their fair share, there are other in-kind contributions being made.

I look back at a similar example many many years ago, prior to me even being involved with city government. The Utah National Guard was paying $12,500 a year for the lease of some 150 acres, including buildings and hangars, from Salt Lake City Corp. Some politicans got a hold of this information and said, "Isn't that ridiculous, the Federal Government is occupying that space for only $12,500 a year."

The point was that the military had gone in and built a new taxiway at no cost to the city at all. In fact, they spent hundreds of thousands of dollars year after year.

It is obvious you are subsidizing the military, at least on the cost of the Shuttle, but it might be helpful if you can find out for us how much is going the other way that helps NASA with DOD expenditures. You obviously can't supply this information today, but I think it will be helpful to know it.

Senator PROXMIRE. Tom van der Voort has inquired into this. He has told me—and I don't have the figures; they are unavailable—that the contribution by the Air Force to NASA operations through the Vandenberg Air Force facility is far less than NASA's contribution to DOD.

Senator GARN. That may be true, but I think we should have the information for the record.

Mr. BEGGS. Yes, sir.

[The information follows:]

The DOD and NASA share of STS development and operations costs are roughly proportional to the ratio of Defense and civil use of the STS. This principle was the basis for the original (1977) agreement between NASA and DOD on splitting STS program responsibilities, and it is still in effect today. (It is at best impractical, if not impossible, to allocate cost proportionally below the total program level; i.e., VAFB only or KSC only.)

There are currently 65 Shuttle Flights manifested through FY 1987, 20 of which (31 percent) are for the DOD. There is a similar relationship through the mission model (through FY 1994) with the DOD projecting 113 flights out of 311 total flights.

There is a substantial DOD investment in the Shuttle, estimated by DOD to be approximately $10.9 billion budgeted through FY 1987 for Shuttle related development and operations. DOD Shuttle related investment costs alone total about $5.7 billion through FY 1987; this includes the development of the Vandenberg Shuttle launch site, the Inertial Upper Stage, Shuttle transition and operations capability development costs, and the Shuttle portion of the Consolidated Space Operations Center (CSOC). This initial investment, and the subsequent DOD STS operations funding, have been and remain directly proportional to Defense STS usage.

There has been considerable recent discussion of NASA "subsidies" to the DOD. However, we believe that there is, in fact, a well balanced exchange of support between the NASA and the DOD in which both Agencies receive considerable benefit and make similar investments. These activities include cooperative programs/projects, NASA services provided to the DOD, and DOD services provided to NASA. Those services between the Agencies that are provided on a reimbursable basis are charged only operating costs.

A partial listing of cooperative projects and DOD support follows:

- Space Transportation System development and operations.
- Contingency support to manned space flight by DOD activities.
- Space Test Program projects (i.e., SCATHA, Teal Ruby, and the new Combined Release and Radiation Effects Satellite - CRRES, etc).
- Air Force development of the basic spacecraft used by both Air Force and NASA for weather missions.
- Space Technology (i.e., MILSTAR development of high-frequency communications suitable for civil use; space power systems, mass memory, etc).
- Global Positioning System which supports civil as well as military users with precise navigation.
- Air Force Satellite Control Facility support to STS launches.
- Air Force Eastern and Western Space and Missile Center range support to NASA launches.

- Provision of Atlas launch vehicles to NASA without charge for the SEASAT and TIROS-N programs.

- Provision of Minuteman I motors to NASA without charge for use in sounding rocket programs.

- Air Force Flight Test Center (Edwards AFB) cooperation/-support to Dryden Flight Research Center.

- Arnold Engineering and Development Center wind tunnel support to NASA, including the new Aeropropulsion Test Facility now being built.

- Numerous aeronautics projects by both Agencies which benefit the other (i.e., the DARPA/USAP forward swept swing technology program).

- Contract administration services for NASA.

- Military airlift.

We believe these, and many other projects, represent a long term solid basis of NASA/DOD cooperation which benefits both Agencies, and the taxpayer, in a very substantial way.

TERMINATION OF CENTAUR CONTRACT

Senator GARN. On December 14, Senator Schmitt and I wrote to NASA concerning your intent to terminate the Centaur development program. In that letter, we requested that NASA not take any action in fiscal year 1982 that would prejudice continuing with a full-scale development effort in fiscal year 1983 to meet an eventual fiscal year 1985 launch date.

Last month, Chairman Boland and I wrote to NASA informing you that the committees will direct NASA to continue the development and procurement of the Centaur.

Last week, NASA terminated the Centaur contract.

If you are required to renegotiate that contract due to a congressional directive—this time in the law—do you believe that additional costs would be incurred by the Government?

Mr. BEGGS. It is possible, Mr. Chairman, but, if there are additional costs, they will be relatively minor.

The point I would like to make on the termination is, we had passed the point of protecting the 1985 launch date—we can no longer do that. We are now into a 1986 launch date. If it is reinitiated, my view is that the contract would have to be modified because of the schedule and probably because of a number of other terms which would have been more grievous in terms of cost impact than terminating the existing contract and starting over again. The contractor is ready, willing, and able to sit down any time to start up again. In fact, I would suspect he is probably continuing his work to insure he can start up again. But, it seemed to me that we had reached the point in the schedule where it didn't make sense to continue on the current basis.

Senator GARN. Why wasn't it conceivable then, rather than just termination, to just renegotiate the contract to solve that problem when you had such strong congressional feeling that the Centaur should continue?

Mr. BEGGS. We could have done that, of course. We have Galileo and ISPM proceeding down the line to fly them on IUS. We will reach a point very soon where it will be hard to back that up and do it on Centaur without having a significant schedule impact. The schedule would be impacted out in the 1985–86 time period. While this can certainly be accommodated, it would mean we have to go back and undo work we are currently doing and start all over again. All these things combine to make it appear to me that the contract, which had been negotiated some months ago, no longer had any validity to the problems we are facing.

FILAMENT-WOUND CASES REPROGRAMING

Senator GARN. In fiscal year 1983 you are requesting $60 million for performance augmentation for the Space Shuttle. One of the major elements in this request is funding for the filament-wound solid rocket booster case. You note in your budget justification that you have submitted a formal reprograming request to Congress. As you know, this request has not, as yet, been approved by the Senate authorizing committee. You further note that in order to meet the October 1985 availability date, the filament-wound case design and overall space transportation system integration activities should be initiated in fiscal year 1982.

What original contract start date had you completed for the filament wound?

Mr. BEGGS. April of this year, and we are experiencing now a day-by-day delay in that schedule.

Senator GARN. To what extent has this date now been delayed as a result of the lengthy congressional review activity?

Mr. BEGGS. We were hoping that we could select the contractor by mid-May. If we are able to select him and if we can go forward with the contract—it is one thing to select and it is another to write a contract—we do need authorization on the reprograming in order to sign a contract. If we delay beyond May 15, we will have probably lost a couple of months.

Senator GARN. As you very well know, the delay is not caused in this committee; it is in the authorizing committee.

Mr. BEGGS. Yes, sir; I know that.

Senator GARN. If for no other reason, I know where the filament-wound cases are made. There are a lot of filament-wound cases being done in Utah, Senator Proxmire, by Thiokol and Hercules, not like the milk cows in Wisconsin.

Senator PROXMIRE. Nothing is like milk cows in Wisconsin. [Laughter.]

Senator GARN. At what point will a decision delay reduce the requirement for fiscal year 1983 funding and possibly cause slippage of the 1985 flight schedule?

Mr. BEGGS. We are already for the 1985 date. If we can let this contract in the May–June time period, we will be all right on the 1985 flight date. I would not recommend any changes in the 1983 funding. If it is delayed beyond that, then it will have an impact, but if we let a contract which will encompass the original schedule and one in which we will be able to permit him some flexibility in the way he tools up for the job, then there is a way of catching up.

Senator GARN. Senator Proxmire.

SHUTTLE PERFORMANCE AUGMENTATION

Senator PROXMIRE. Apropos of the filament-wound solid rocket booster casing, you are requesting $60 million for Shuttle performance augmentation in 1983 to pay for the development of the lightweight filament-wound solid rocket booster casing in order to increase the Shuttle's payload lifting capability. In your letter of February 3 to the Congress, Administrator Beggs, you said: "This additional capability is required for certain national security missions." If this is the case, why is NASA going to pay the approximately $250 million it will cost to develop and procure three flight sets of this hardware? Why shouldn't the Defense Department foot this bill?

Mr. BEGGS. This fulfills the requirement that was laid on the Shuttle in the beginning across the board to build a payload capability of 65,000 pounds out of Kennedy and 32,000 pounds out of Vandenberg. In order to do that, we have had to make a number of augmentations to the program. A filament-wound case will add about 5,500 pounds of lift to the capability. There are other improvements that will add additional amounts, although this is the largest single improvement we see. It is part of the original Shuttle program requirements and it was a national decision made on the basis that NASA would develop that.

DOD CONTRIBUTIONS TO NASA THROUGH VAFB

Senator PROXMIRE. Dr. Mark, can you give us any idea of the contribution that the DOD makes to NASA programs through the facilities at Vandenberg Air Force Base? In terms of dollars, roughly what would that contribution be?

Dr. MARK. The original agreement that Mr. Beggs referred to was made in 1972, at which time I was working in NASA. The agreement is that NASA would develop the orbiter, the boosters, and the eastern launch site at Kennedy, and that the Air Force would develop Vandenberg as well as all of the upper stages that are used for the Shuttle. In 1972 when that agreement was made in those dollars, roughly speaking, the Air Force fraction was 25 percent and NASA's fraction was 75 percent. If I remember correctly, the number was about $7 billion, $7.5 billion, perhaps, with the Air Force being like $1.5 or $2 billion.

We have kept that agreement very, very closely. The questions you have asked, Senator, really bear on that history.

Senator PROXMIRE. I am concerned now only with the contribution that the Defense Department has made. Could you give it to us in dollars?

Dr. MARK. Roughly speaking, we have $15 billion of NASA money in the Shuttle program and something like $3 billion in the Defense Department budget. So, we are talking about the same ratio that we agreed to in 1972.

Senator PROXMIRE. I am wondering specifically about the cost of the Shuttle facilities at Vandenberg Air Force Base.

Dr. MARK. It is approximately $2 billion.

Senator PROXMIRE. $2 billion?

Dr. MARK. $2.4.

Senator PROXMIRE. A $2.4 billion investment by the Air Force?

Dr. MARK. Yes, sir.

Senator PROXMIRE. And all of that accrues to the benefit of NASA?

Dr. MARK. No, sir; I don't know how to calculate that.

Senator PROXMIRE. That is the information I want.

Dr. MARK. You can calculate that in a number of different ways. You can take flight rates and that gives you one answer spread over a mission model. Mr. Beggs mentioned it before—70 flights out of Vandenberg, and 47 are military and the rest are civil. That is one way of calculating. But, what you really have to do is to weigh those flights according to the benefits that the military and the civilian community get out of the Vandenberg facilities.

Let me give you an example, if I may. If we did not have the Vandenberg Air Force Base, we could not launch the Landsats because Landsat goes into a polar orbit and can only be launched, given our safety requirement, from Vandenberg. Consequently, what value do you put on the availability to launch a purely civilian observation system? I just don't know how to do it. That is why we made the agreement.

Senator PROXMIRE. Dr. Mark, for the record, could you give us whatever details you can provide; I would appreciate it very much.

[The information follows:]

The DOD and NASA share of STS development and operations costs are roughly proportional to the ratio of Defense and civil use of the STS. This principle was the basis for the original (1977) agreement between NASA and DOD on splitting STS program responsibilities, and it is still in effect today. (It is at best impractical, if not impossible, to allocate costs proportionally below the total program level; that is, Vandenberg Air Force Base only or Kennedy Space Center only.)

There are currently 65 Shuttle flights manifested through fiscal year 1987, 20 of which (31 percent) are for the DOD. There is a similar relationship through the mission model (through fiscal year 1994) with the DOD projecting 113 flights out of 311 flights total.

The DOD has provided the following breakdown of Shuttle-related costs (based on fiscal year 1983 President's budget/FYDP):

	In billions of dollars
STS development	3.8
STS operations	5.2
Payload transition	.5
Backup ELV's	.6
Consol. space ops. (Shuttle portion)	.7
Other	.1
Total	10.9

Senator PROXMIRE. The last time I looked, your mission model for the Shuttle assumed 487 flights over a 12-year period.

Mr. BEGGS. Yes, sir.

MISSION MODEL IMPACTS FLEET SIZE

Senator PROXMIRE. The GAO's report on NASA support for defense programs states that your latest traffic model shows 234 Shuttle flights through 1994. In other words, your missions have apparently been cut by more than 50 percent.

What does this reduction in missions do to the costs of the Shuttle in comparison to the costs of a fleet of expendables?

Mr. BEGGS. If we hold to the rate they used, Senator, I would like to make this observation. Those are purely planning numbers, just as the other numbers were planning numbers, and the way you arrive at them is by building to a rate of 24 flights a year and holding that rate out through 1994. I don't believe that is going to happen. To the contrary, I believe the rate will go up 35 or 40 in that time period and the number of flights will be on the order of 311 flights.

But, if we made that assumption and did hold at that point, it would raise the cost of the individual Shuttle flight closer to that of the expendables. But, it would still be below the cost of the expendables. I should add, you get the additional benefits of the Shuttle; the ability to revisit, repair on orbit, and the ability to go up there to put the satellite in orbit after you check it out, which is a significant advantage.

EXPENDABLES VERSUS SHUTTLE PAYLOAD LIFT CAPABILITY

Senator PROXMIRE. I appreciate that. There are also some sacrifices you have to make, particularly with respect to payload.

Administrator Beggs, I understand you told the House Appropriations Committee that the Shuttle's current capacity from Kennedy Space Center is 40,000 pounds as compared to your advertised 65,000-pound payload.

How long will it be before the Shuttle can lift 65,000 pounds into orbit and how much added investment will it take to reach that level of performance, which is far below the payload we had years ago with expendables?

Mr. BEGGS. No, sir; that is not correct.

Dr. MARK. May I answer that.

We did have the capability with the Saturn to lift more payload, but we phased that program out in 1972. A single Saturn launch in that year cost $300 million. It was a terribly expensive system to run.

Senator PROXMIRE. I am not disputing that. I am just saying the expendables did have the ability to put up a bigger payload.

Mr. BEGGS. Let me address your question more specifically. Assuming that we get funding for the performance improvements that we have programed, we will reach the full 65,000-pound lift capability out of Kennedy by the 1985 time period. We have a plan that incrementally improves it to that point.

Senator PROXMIRE. Do you have an estimate of what it will cost to achieve that goal?

Mr. BEGGS. Yes, sir. We will give you a cost estimate on that. I don't have one in front of me. It is in the runout of the program numbers that you have. We will address it specifically to those improvements.

[The information follows:]

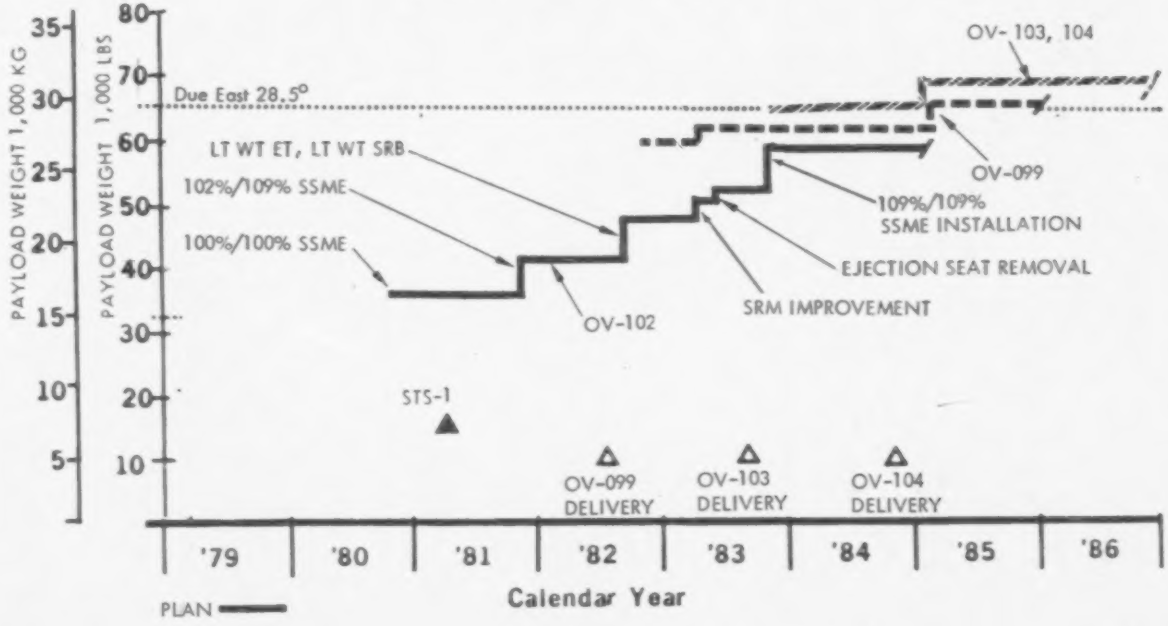
The systems modifications to reach the full 65,000-pound payload capability from Kennedy Space Center are included in our capability evolution plan (enclosure 1). This capability evolution is planned over the next 3 to 4 years in a very prudent and carefully scheduled fashion involving the relaxation of many constraints (e.g., max dynamic pressure, ejection seat removal, etc.); availability of the follow-on orbiters which are lighter than OV-102 and thus provide more payload capability (amounting to 3,100 pounds for OV-099 and 5,300 pounds for OV-103/104), and some design improvements (e.g., lighter tanks, more main engine thrust, etc.). See enclosure 2 for the performance payoff of each system modification along with the related costs and schedule.

OFFICE OF SPACE TRANSPORTATION SYSTEMS

SPACE SHUTTLE CAPABILITY EVOLUTION
EASTERN TEST RANGE (ETR)

MARCH 17, 1982

- 2 MEN/1 DAY
- 275 KM (150 NM) CIRCULAR ORBIT



ENCLOSURE 1

MEASURES TO INCREASE PAYLOAD DELIVERY CAPABILITY OF THE SPACE SHUTTLE:

	PERFORMANCE	ESTIMATED COST (FY 1983$) FY 82	FY 83	BAL. TO COMPLETE	INITIAL OPS CAPABILITY
• ET WEIGHT REDUCTION	+6,000 lbs.	$ 4M	-	-	1/83
• SRM WEIGHT REDUCTION (STEEL CASE)	+ 500 lbs.	2/	-	-	1/83
• MAIN ENGINE THRUST 109%/109% VS 100%/100%	+10,000 lbs.	$116M	$ 40M	-	7/83
• HIGH PERFORMANCE SRM	+ 2,000 lbs.	$ 19M	$ 3M	-	7/83
• PERFORMANCE AUGMENTATION BASED ON FILAMENT WOUND SRM CASE	+5,500 lbs.	$ 5M	$ 60M	$185M[1]	10/85

1/ INCLUDES 3 FLIGHT SETS
2/ ALL FUNDS SPENT PRIOR TO FY 1982

ENCLOSURE 2

Mr. Beggs. The other part of the question is the payload capability out of the Western Test Range, Vandenberg facility, which is 32,000 pounds to a low-Earth orbit and is different from the eastern launches. We will reach that capability in the same 1985 time period because the program incrementally improves to that point.

REPLACEMENT OF SHUTTLE THRUSTERS

Senator Proxmire. A recent UPI story indicated that 10 of the 48 thrusters on the Columbia would be replaced before the next Shuttle flight because gypsum dust collected in the small rockets when the spaceship landed on the New Mexico desert.

When were these thrusters scheduled to be replaced under your initial operating plan?

Mr. Beggs. I will ask General Abrahamson to respond; but, I would like to make one response to the general question.

We have been in the initial phases of this program going through changing out subsystems on a regular basis. The reason we do that is not that we don't think the equipment can be reflown a number of times; quite the contrary. We expect it to be reflown many times over the life of the Shuttle. However, we are still in the developmental phase of this program and we want to be sure we understand how that hardware has performed after each flight. We take out selected pieces and take them back to the laboratory to examine them to see what the wear factor has been and whether there are any problems with the hardware. We would have been pulling some of these thrusters out regardless of our gypsum problem. We did this out of a sense of caution.

Senator Proxmire. I think it might be helpful if I asked these questions together.

First, when were these thrusters scheduled to be replaced under your initial operating plan?

Second, how much will it cost to replace the thrusters?

Third, will the thruster replacement program delay in any way the next scheduled launch of the Shuttle?

General Abrahamson. Let me answer that as best as I can. The thrusters themselves were designed for a 100-mission life as is most of the basic Shuttle, and we don't believe that is really changed. As Mr. Beggs indicated, we did go through a planned inspection program after each flight.

For these particular thrusters, I think the UPI story is not complete. They are not destroyed, ruined, or ineffective. What we have is a small buildup of hard material from the dust in a very critical area and we were concerned that we may have combustion instability. Therefore, we took them out in order to do testing and to insure that we could go ahead with the next flight on schedule. We are doing that now and we will be able to go ahead on schedule. We will inspect these thrusters and, in fact, do some selected testing firing. We have already fired one of them and will complete the balance this week. I expect that they either will be good or we will have to do some cleaning, but we will not have to make a major investment in new thrusters as perhaps the story implied.

Senator PROXMIRE. Then, at the present time, I take it, you can't tell us what the cost to replace the thrusters would be or whether they would be replaced at all?

General ABRAHAMSON. We don't plan on replacing them but we may have to replace a small part.

Senator PROXMIRE. I understood you to say this would not delay the next Shuttle flight.

General ABRAHAMSON. Right.

IG REPORT ON ORBITER PROJECT

Senator PROXMIRE. Earlier this year, minority staff requested a copy of an audit of the orbiter project performed by your Inspector General's Office.

We received a copy of the draft audit report on April 27, together with a cover letter indicating that the draft was submitted to NASA headquarters on February 22 but had not yet been commented on.

Why has it taken NASA management so long to process the draft and when do you expect to issue a final report?

Mr. BEGGS. Ms. Brown.

Ms. BROWN. The final report should be out next month. The comments were received, in fact, the day after I sent the report up for your review. I believe those comments were forwarded the next day. So there were individual comments which were received earlier from various components of NASA, but the coordination of those to come out with the position of the agency took the time that you were speaking of.

Senator PROXMIRE. The draft report's executive digest states:

> The Johnson Space Center contracted with the Rockwell Corp. for the fabrication and delivery of four flight orbiters. The current estimated cost of completion is approximately $10 billion.

Would you comment on the reasons for the difference between this price tag and the $500 million per orbiter cost figures you used for the purpose of setting user charges?

Mr. BEGGS. Senator, I think maybe we have added some confusion. The $10 billion figure is the cost of the D.D.T. & E., or the development phase. The cost is running about $3.3 billion for the actual production cost of the four orbiters.

We have interchanged some numbers, which left confusion with that report, but those are the right numbers.

Senator PROXMIRE. I read the draft report's executive digest which said that for the fabrication and delivery of four flight orbiters the current estimated cost of completion was approximately $10 billion.

Mr. BEGGS. There is confusion because that is not the right number.

The Shuttle development phase, or the design, development, test, and evaluation phase, was a $10 billion program. So, if you described it right, it was that $10 billion that made it possible for us to get to the point where we can produce the orbiter, but the actual production cost of the orbiter is the number I cited.

RECOUPMENT OF SHUTTLE COSTS

Senator PROXMIRE. That raises the question as to whether or not research and development and so forth, if performed by a private concern, wouldn't be charged to the ultimate customer. One way or another, we have to allocate these costs.

Mr. BEGGS. If this were a private development, Senator, the engineering charges would have been charged off year by year against current revenue and then the product would have been sold for whatever the market would bear. The engineering cost would have long since disappeared because that is the way the commercial business world works—they charge off their engineering costs against current revenues.

Now, there is an attempt to maintain a record in the commercial world over the life of a program. If you look at the transport aircraft, which is as close an analogy in the commercial world as you have to the Shuttle program, you will see generally in the annual reports of the company, which produce that aircraft, a number that reflects unamortized engineering cost.

Senator PROXMIRE. Are you saying that you will not recoup your R. & D. costs at all or that you will recoup some of them?

Mr. BEGGS. I am not saying we will or will not. I am saying with respect to the comments you made, if this were a commercial venture, as far as the Government is concerned and as far as the commercial venture is concerned there is no difference. Those engineering costs are sunk costs and are written off; they are gone.

Senator PROXMIRE. You said they are written off. Then they won't be recouped at all.

Mr. BEGGS. No, sir; I am not saying that. They are, in the parlance of the accounting trade, sunk cost. Whether we recover any of those sunk costs depends on what the market will sustain as to pricing of this system in the out years. It is my earnest belief that in the out years the demand for this system will increase to the point where we will not only get our money back, but we will make some money.

Senator PROXMIRE. Mr. Administrator, one thing is certain, technology changes dramatically and swiftly and you will be getting into an entirely different kind of a system 5 or 10 years from now. In any weapons development program, we certainly insist that we know fully and take into account the R. & D. costs. We don't just forget those costs.

Mr. BEGGS. If I left the impression we were going to forget it, I left the wrong impression. I am saying that the money has been spent. Whether it will be recovered or not depends on how well the market develops for the services that we are going to supply with this system and that would be true whether it were a commercial venture or a Government venture—there is no difference with respect to that.

SPACE STATION CONCEPT DEVELOPMENT

Senator PROXMIRE. As you may know, I have long believed that your agency has a strong bias toward huge, very expensive projects because they keep your centers open and your people employed. First came Apollo and then the Space Shuttle. It seems your next major initiative will be a manned space station, and I am concerned that it will proceed regardless of the real need for such a program because your agency needs it more than the country needs it. My concern has been heightened by two articles appearing in Aerospace Daily.

The first, dated April 21, indicates that your Director of Space Station Concept Development told the Daily that NASA needs to convince the administration of the military and industrial payoffs of a fiscal 1984 space station investment.

The second, dated April 27, says the Air Force has come up with a lengthy list of space station missions at NASA's request. The article goes on to say:

> But Air Force officials are quick to challenge their own work to date as no more than "a shopping list"—no requirements have been validated, no priorities or time-phasing have been established, and no consideration has been given to other, non-space-station ways of doing the missions. The existence of a space station is assumed as a given and costs are ignored.

Frankly, I think this is exactly the wrong way to go about justifying a program. First you decide you want it and then you figure out why you want it.

Why haven't you asked the Air Force for a cost-benefit study of the utility of a space station as compared with other concepts?

Mr. BEGGS. I don't believe we have.

Senator PROXMIRE. My question is: Why have you not asked the Air Force for a cost-benefit study of the utility of a station?

Mr. BEGGS. I would like to make a general comment. This is not a new idea nor is it an idea which we have pulled out of the air just to sustain the agency. The space station or space platform idea, either one, has been a part of the program using the Shuttle ever since its origin and it is a part of a total system which will enable us to realize the full potential.

Dr. MARK. To expand a little bit on what Mr. Beggs said, if you go back to 1968 and review what we did in the post-Apollo studies, you would find that we did make a very wide survey of what people thought. That survey included the Air Force, because at the time the Air Force was, in fact, developing its own space station called the Manned Orbiting Laboratory.

Senator PROXMIRE. Speak a little louder.

Dr. MARK. In 1968 when we studied what to do after Apollo was finished, we did, in fact, talk to a large number of people on what the scientific community, the military community, and the various people that have need to operate in the space environment thought was important. The answer was that an operating base is something that all could see requirements for. We then went ahead, as you may remember, and actually proposed that base; the Shuttle was part of that proposal. However, because of the total cost we were told that you can't do this altogether, you must choose what to do first. So, we chose to develop the Shuttle first and to wait to see where we could go from there.

It is very interesting that, at about the same time the Russians were faced with the same decision; they came to the opposite conclusion. Instead of developing the transportation system, they developed a base.

Now we are at the stage where we have to start thinking again about the question of whether we should go ahead to develop a base. We are going through precisely what you read, which are fragments of the questions in the Aerospace Daily and the various papers. We are asking people what their requirements would be for such an operational base.

I believe that the Shuttle by its very existence really implies that we would already have such permanent facilities because from now on when we build a satellite, it will no longer be built to be thrown away after its initial use.

Senator PROXMIRE. I missed that.

Dr. MARK. To be thrown away. Right now when we fly a satellite, it is thrown away after a while because it runs out of fuel or stops working and we can't go up to fix it, nor can we go up to refuel it. From now on, things like the Space Telescope will be built from the ground up to be refueled, refurbished, and used permanently. They will, in other words, be permanent facilities for various purposes in Earth orbit. If you want, you can call such a permanent facility a space station. I believe that the Shuttle and the way it works will naturally lead to the establishment of a permanent facility and a permanent base in orbit.

FISCAL YEAR 1983 FUNDING FOR A MANNED SPACE STATION

Senator PROXMIRE. I am talking about a manned space station. I would like to know how much is in your 1983 budget for a manned base?

Mr. BEGGS. In the 1983 budget there is only $4 million for manned space station studies.

Senator PROXMIRE. How much?

Mr. BEGGS. $4 million.

Dr. MARK. When I said, "No," I meant no project money.

Senator PROXMIRE. Mr. Chairman, I want to thank you very much for your patience and I do have other questions for the record that I want to submit.

EXPENDABLES VERSUS SHUTTLE

Mr. BEGGS. Senator Proxmire, may I make one more comment so the record is straight.

With respect to the expendable versus the Shuttle issue, the largest expendable we have operating today in the United States is the Titan, the one you referred to. The lift capability of the Titan is about 35,000 pounds for the most optimum situation.

Senator PROXMIRE. But the Saturn——

Mr. BEGGS. The Saturn had over 200,000 pounds of lift capability but it was a very very expensive system.

Senator PROXMIRE. And the Soviets——

Mr. BEGGS. In that time period, which was in the late 1960's, it was $300 million a copy.

Senator PROXMIRE. Have not the Soviets developed an expendable, or are they not working to develop an expendable, with a payload that is about three or four times the Shuttle's 65,000 pounds?

Mr. Beggs. I can't comment on that.

Senator Proxmire. The payload makes a big difference.

Mr. Beggs. You could develop a larger lift expendable. We can do it in this country without any question within the technology that we have. Our belief is that with the Shuttle we have a more versatile, cheaper vehicle in the final analysis, because it is reusable and a better system since we can go up to do things that stations do—refueling, checkout on orbit, and repair on orbit.

Senator Proxmire. Thank you, Mr. Chairman.

Senator Garn. It is interesting that nobody mentions the MX missile since there is an expendable on the front end—the Minute Man Three does not. If you are talking about lifting larger loads, everybody is talking about the MX in terms of warheads. But, the back end of it is simply a booster and none of our current military missiles, except the Titan, which is not the most reliable, as we well know, can lift anything with any consequence for any of the purposes we are talking about. Some people who are so opposed to building an MX might realize it might have some capabilities as well because I think, Senator, we would make a great mistake if we did not have a mix of expendables as well as the Shuttle in the future.

When OMB starts talking about doing away with expendables, I think it is incredibly shortsighted, because if you look at the Shuttle it has capability far, far beyond just putting something in orbit. But I would expect there would be some missions in the future that an expendable could do better and we would be terribly foolish not to have a mix of those two systems together.

In addition to the questions that Senator Proxmire and Senator Huddleston have for the record, there are 110 pages of additional questions which I have that I will also submit to you for response in the record.

I would say in closing, that I think the one thing that most people ignore with NASA—and certainly Senator Proxmire's questions are appropriate—your budget justification should be questioned to make sure that it is as efficient as possible. On the other hand, I don't think many people realize the incredible value of spinoffs from NASA programs over the years.

BUDGETARY CONSTRAINTS ON AERONAUTICAL SPINOFFS

Just one final dig—you know how I feel about some of the aeronautical programs—on page RD 9-2 and RD 9-3, you list a series of programs that are slated for termination prior to fiscal year 1983 because of budget constraints. However, you indicate that programs such as the energy-efficient transport would save $590 million annually; the lamaner flow control, $286 million annually; composite primary structures, $842 million annually; advanced turbal programs, $397 million annually; and energy-efficient engine, $126 million annually.

We are talking about millions and millions of dollars saved from the private sector as a result of the NASA programs. Although we must have careful oversight over your programs so that we are not wasting money, I think this administration, as well as past administrations, have been terribly shortsighted. Apart from the many types of electronic development, solar batteries, communications equipment, that so vastly have improved the private commerical sector over so many years, I simply can't find other Governmental programs that can show the spinoff savings to the private sector.

We will continue to watch you closely and have you justify your budget, but, on the other hand, I don't know of any other agency in the Federal Government that has produced so much for this country as the spinoffs from the NASA programs over the years.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

CHANGES TO FY 1982 BASE

Question: Please prepare for the record a brief description of each of the changes of over $1 million made in your FY 1983 budget to the FY 1982 base and the expected programmatic impact of those changes. Prepare one list of increases and one list of decreases.

Answer: A list of the increases and decreases can be found on pages 1052-1064 in response to a previous question from Senator Garn.

TECHNICAL ADJUSTMENT IN PROGRAM FINANCING TABLE

Question: Page SUM-11 of your budget justification shows a FY 1983 estimate of $30.9 million for Expendable Launch Vehicle development and $479.4 million for Physics and Astronomy. I understand that those numbers should read $33.5 million and $476.8 million respectively. Could you please prepare for the record a new schedule including these changes?

Answer: A new schedule is enclosed as Table B.

PROGRAM, ACTIVITIES AND PROCUREMENTS OVER $10 MILLION

Question: Last year at the hearings, I asked NASA to specifically include in their budget justification all programs, activities and procurements over $10 million so that the Congress would have an adequate opportunity to review the cost of these programs and how the cost has changed from the previous year's estimates. I do not find this information in your current budget justification. Could you please supply this for the record and in the future, include it in your budget justification?

Answer: In its report the Committee requested NASA to modify its justification material to insure that all program activities and procurements costing $10 million or more are specifically identified in the justifications. The NASA Research and Development justification provided to the Committee in January was responsive to that request. Identification of the programs, activities, and procurements was integrated into the program descriptions provided in the budget justification books. The internal guidelines for developing this material provided that procurements with a total estimated cost of $10 million or more should be mentioned in each of the years to which that procurement is applicable. It should be recognized that there are not a large number of new procurements at this magnitude, but there are many actions which extend or incrementally fund previously initiated procurements. It should also be recognized that in many cases the exact mode of procurement for actions in FY 1983 has not been determined. Many items are obtained by subcontracts for which the prime contractor rather than NASA implements the procurement. With these qualifications, Table C is a list of major activities and procurements identified in the Research and Development justifications which are estimated at approximately $10 million or more.

PRIORITIES FOR BUDGET REDUCTIONS

Question: If the Congress were to reduce your FY 1983 Research and Development amount by $20 million, how would you allocate this reduction--be specific? Please prepare additional lists for reductions of $40 million, $60 million and $80 million.

If the Congress were to reduce your FY 1983 Research and Program Management account by $5 million, $10 million, $15 million and $20 million, how would you allocate these reductions--provide a breakdown by object class.

Answer: If Congress were to reduce the Research and Development Appropriation by $20 million, NASA would try to avoid any significant program impact by taking a small pro-rated reduction in a each of our major program areas.

If an additional $40 million reduction were made, the Agency would need to take a hard look at potential delays in the Shuttle program as well as the science, applications, and space technology programs.

The areas most likely to be affected and non-Shuttle programs would be development of payloads for science missions on Spacelab, and research and technology applicable to longer range capabilities.

If the reduction were larger it would be necessary to consider actions such as a delay of a major mission, Space Telescope, and a delay in initiation of the Tracking and Data Relay Satellite operational service. Assuming these programs continue, the delays imposed by reductions of this size will result in increased program costs in the future.

If the cuts in Research and Program Management were imposed as stated, NASA would attempt to accomplish the required reductions to program operations in such a manner as to minimize the detremental effects, especially on its civil service work force. In general, reductions would be made by delaying necessary maintenance and purchases, and reducing the level of travel (thereby impacting the adequacy of program monitoring), and curtailing personnel training, temporary and growth opportunity programs and the support service levels available to program operations. We believe that at the $5 and $10 million reduction level there will be minimal impact on the numbers of permanent civil service personnel. At the higher levels of reductions, however, it probably will not be possible to accomplish all the cuts necessary without impacting our plan to hire recent college graduates to invigorate the technical staff of NASA Centers.

The problems caused by the deferral of purchases is compounded by the direction we have received to absorb an additional $10.3 million of increased FY 1982 pay costs. This can be accomplished only by deferring planned activities in FY 1982 into FY 1983, and trying to fit those and FY 1983 requirements into the funds asked for in FY 1983. As a result, any reduction will produce a cumulative effect that would be more severe than the isolated impact of such deferrals in any single year.

As noted above, NASA would try to accomplish any funding reduction with the minimum impact on its people as possible by delaying or deferring as many purchases as we can. In addition, it is almost impossible to predict where such delays and deferrals will be possible by object class because the requirements funded in each one will be individually reviewed, prioritized, and as many as possible deferred or delayed to accommodate the reduction imposed.

DOD/NASA COST SHARING

Question: Please list all of the FY 1983 programs in which NASA and the Department of Defense are proceeding with jointly funded technology programs and the DOD cost contribution on each.

Answer:

FY 1983 NASA/DOD Jointly Funded Technology Programs
($ in millions)

	NASA Funding
Research and Technology Base	1.8
Propulsion Research and Technology	1.8
Engine Dynamics & Controls	1.5
Instrumentation	.3
Systems Technology Programs	5.5
High Speed Aircraft Systems Technology	5.5
AFTI/F-16	1.0
AFTI/F-111	1.0
F-14	.4
Forward Swept Wing (X-29A)	2.0
HiMAT	1.1
Total	7.3

Note: Department of Defense cost contributions are not readily available because DOD not only provides funding but it also supplies aircraft, engines, logistical support (spares and parts) and manpower to these programs.

MONITORING OF CONTRACTORS

Question: Last year I asked NASA several questions about the implementation of the recommendations resulting from your management study (Hearth Report). That report implied that action is needed to strengthen NASA's in-house capability for contractor monitoring to assure early identification of technical and cost problems. The former Administrator, Dr. Frosch, also stated that the Agency had let its in-house capability slide downhill too much. What specific steps are you planning to implement the recommendations?

Answer: In January 1982, the Administrator issued a policy statement and a NASA handbook on project management. Both of these documents cover the necessity of adequate project definition and the role of the project manager in assuring that our contractors will be monitored in an organized fashion.

In addition, a draft NASA Management Instruction (NMI) on the planning and implementation of NASA projects was reviewed by senior NASA officials responsible for project activity, project managers and project support personnel at a NASA Project Management Colloquium was held at the Wallops Flight Center on May 17-19. This draft NMI specifically addresses the need for consideration of "in-house" projects in order to maintain the NASA capability.

MANAGEMENT IMPROVEMENTS

Question: As you know, this Committee has been concerned about management problems within the Agency. What are you doing or have you done to implement the recommendations of the Hearth management study that was done last year?

Answer: The recommendations of the Hearth Management Study have been incorporated in NASA NMI 4-1-1. This issuance in draft form will be reviewed at a Project Management Colloquium that was held at the Wallops Flight Center on May 17-19. Attendees at the Colloquium will include NASA officials in charge of projects at their respective Centers, project managers, program managers, procurement officials, the Deputy Comptroller and project support personnel. The attendees will review the document and report their findings to the Associate Administrator for Management. The final document will be issued for implementation shortly after this Colloquium. In addition to this NMI, an Administrator's Policy Statement and a Project Management Handbook covering the Hearth Study recommendations were issued in January 1982.

OVERALL INCREASE FROM FY 1982

Question: What percent of your increase contained in the FY 1983 OMB submission was associated with the Shuttle?

Answer: Approximately 48 percent of the increase in the FY 1983 OMB submission over the FY 1982 budget was associated with the space transportation system.

FY 1982 VS FY 1983 BUDGET PLAN BY INSTALLATION

Question: Page AS-13 of your budget justification presents a summary of the funds associated with each of your installations for FY 1981, FY 1982, and FY 1983 by each of your appropriation accounts. That table indicates three rather large increases over the FY 1982 level. Specifically, Marshall Space Flight Center shows an increase of 27 percent, Goddard Space Flight Center 28 percent, and Headquarters 60 percent. Please provide for each of these installations a list of each of the program elements that are expected to increase by $1 million from their FY 1982 levels. Also provide a short justification for each of these increases.

Could you please provide the same information for the decreases that are expected to occur at the National Space Technology Laboratories, Langley Research Center, and the Lewis Research Center.

Answer: The requested information is shown in the enclosed Table D.

PRIVATE SECTOR SERVICES

Question: How much money did NASA receive for services provided to the private sector in FY 1981? How much is estimated for FY 1982? Could you please provide for the record a detail of these amounts by services rendered?

Answer: The information is shown in the enclosed Table E.

SES BONUSES

Question: How much have you included in your budget request for SES bonuses during FY 1983?

Answer: We have included $1,050,000 in the FY 1983 request for SES bonuses and for payments to Presidential rank recipients.

TRAVEL

Question: This year you are requesting $4,270,000 for Headquarters travel. This is the same level as contained in your FY 1982 Operating Plan. Based on your FY 1982 experience, how many trip days would you expect this level of funding to support? How many of these trip days and what costs will be incurred through trips by non-NASA employees? How much of this travel and how much of these funds are associated with the travel of non-NASA employees to Space Shuttle launches in FY 1983? How will this compare to your FY 1982 funding for this purpose?

Answer: Based upon FY 1982 experience to date, NASA Headquarters' FY 1983 budget will support a total of about 27,800 trip days, of which approximately 300 are estimated for use in support of non-NASA employees at an estimated cost of $34,000. Current FY 1983 planning calls for no substantial travel by non-NASA employees to Shuttle launches beyond STS-4. Consequently, no funds have been included specifically to support the travel of non-NASA employees to Space Shuttle launches in FY 1983. If FY 1983 plans were revised to include such travel, funding required for such support would be offset by reductions in funds planned for other NASA travel.

In FY 1982, $241,000 (1228 trip days) are currently estimated for the travel of non-NASA employees. Of this estimate, $209,000 (904 trip days) are currently estimated for support of travel of non-NASA employees to Shuttle launches.

STAFFING

Question: Could you give us your view of the impact of the manpower reductions for FY 1982 and FY 1983 on NASA today and on NASA's future?

Answer: The employment reductions NASA will make as it reaches the end-year FY 1983 level of 21,219 permanent Civil

Service employees will be achieved by not filling jobs as they become vacant through normal attrition. Because this will impact our hiring capabilities, we will attempt to minimize the impact on our technical capabilities by emphasizing the hiring of new or "fresh-out" college graduates in science and engineering.

Question: Last year, I stated that we would like you to include a listing of your staffing needs each time a new program start is initiated. Have you done that in your current budget submission. Could you please provide that information for the record?

Answer: The current budget does not include the initiation of any new program starts in FY 1983. Therefore, no listing of staffing requirements for new starts is included.

PURCHASE OF SENATE AND HOUSE HEARINGS

Question: How many sets of the FY 1981 and FY 1982 Senate Appropriation Hearings were purchased by NASA?

How many sets of the Senate FY 1981 and FY 1982 Authorization Hearings were purchased by NASA?

How much money was spent during FY 1981 and FY 1982 by NASA for the purchase of all Congressional hearings?

How much is available in the FY 1983 budget for the purchase of such hearing material?

Why is it necessary for NASA to purchase such large numbers of each of these hearings?

Answer: For each fiscal year, 250 copies of the Senate Appropriation Hearing records were purchased.

For each fiscal year, 250 copies of the Senate Authorization Hearing records were purchased.

As FY 1982 is still in progress with few invoices for Congressional materials having been received from the Government Printing Office, the only accruate figures which can be provided are for FY 1980 and FY 1981. For FY 1980 and FY 1981, NASA was billed $39,246 for all Congressional hearings ordered.

NASA is budgeting $18,000 in FY 1983 for the purchase of all Congressional hearings.

NASA believes it is essential for all Agency policy makers and first-tier management officials to be aware of the guidance and direction of the Congress, and much of this guidance and direction is evident from the hearing records.

Congressional hearing records are distributed to key personnel at Headquarters and at fifteen field installations. In our opinion, 250 copies of each NASA hearing is not an unwarranted nor unnecessary number to purchase for this purpose. However, at the beginning of each new Congress, our distribution lists are thoroughly reviewed so as to make certain that only those persons and offices with an evident need continue to receive the printed hearing record.

CHIEF SCIENTIST POSITION

Question: The organizational chart presented in your budget justification displays the major offices and positions that provide staff support to the Administrator and Deputy Administrator. One of those positions displayed on that chart is that of Chief Engineer. However, the chart does not contain a designation for the position of Chief Scientist. Does NASA still consider this position part of their organizational structure? When was this position last filled?

Do you have any intent to fill this position in the near future and if not, why?

Answer: The position of Chief Scientist is part of the NASA organizational structure. It has been vacant since July 1981 when Dr. John Naugle retired. We intend to fill the position when an individual with the proper credentials has been found.

SHUTTLE MODIFICATIONS

Question: The Shuttle will require significant modifications and improvements to accomplish many of its design goals. Modifications and weight lightening actions--including the filament wound case for the solid rocket boosters--will be required before the Shuttle can deliver its designed 65,000 pound payload to low-earth orbit. What is your current cost estimate for each of the modifications and improvements that you are considering?

Answer: As presently configured (payload capability of 40,000 pounds) for the orbital flight test program, the Space Shuttle does not provide the performance design goals of 65,000 pounds for east coast launches and 32,000 pounds for west coast launches. However, this full capability was not planned to be available for the flight test program. Indeed, the systems modifications to reach these goals have been identified and included in our capability evolution plan for many years now.

This capability evolution is planned over the next three to four years in a very prudent and carefully scheduled fashion involving the relaxation on many constraints (e.g., maximum dynamic pressure, ejection seat removal, etc.); the availability of the follow-on orbiters which are lighter than OV-102 and thus provide more payload capability (3,100 pounds for OV-099 and 5,300 pounds for OV-103/104); and improvements to other systems elements (e.g., lighter tanks, more main engine thrust, etc.). See Chart E for the performance payoff of each system modification along with the related costs and schedule.

It should be noted that the need for performance augmentation (recently selected as the replacement of the steel solid rocket motor case segments with a lighter, composite material filament wound case) has been recognized for some time as evidenced by study activities carried on since 1978 to determine the best performance concept. Although there may be some value to the use of filament wound cases for east coast launches, it is not necessary to meet the 65,000 pound specifications; it is required to supplement the performance capability for west coast launches.

ORBITER DESIGN, DEVELOPMENT, TEST AND EVALUATION

Question: Your FY 1982 budget request was for $372 million for orbiter design, development, test and evaluation. Your FY 1982 Operating Plan contains an estimate of $422 million for these activities. This represents an increase of $50 million. On page RD 1-8 of your budget justification, you state that the orbiter estimates have increased in FY 1982 by $50.8 million. Is it $50 million or $50.8 million?

Answer: The correct increase is $50.0 million.

Question: You list a series of factors that have resulted in this increase including implementation of changes, external tank reentry tracking, and continued development of the man maneuvering unit. Could you please list for the record each of the various changes that have accounted for this FY 1982 re-estimate and the increased cost associated with each of these changes?

Answer: The increase of $50.0 million of orbiter DDT&E in FY 1982 by individual line item is shown on Table F enclosed:

SHUTTLE THERMAL PROTECTION SYSTEM

Question: Please describe your activities in approving or developing a new thermal protection system for the Shuttle. For each of these activities please identify the FY 1983 associated costs.

Answer: There are two new types of thermal protection which have been developed and approved for use on the Shuttle orbiter. These are a new fibrous refractory composite insulation weighing 12 pounds per cubic foot (FRCI-12) and an advanced flexible reusable surface insulation (AFRSI). FRCI-12 will be used to replace the LI-2200 starting with the tiles for OV-103. It will result in a weight savings of approximately 900 pounds and cost $3 million in FY 1983.

AFRSI will be used to replace LI-900 white tile on OV-103 and subsequent tiles. It will also be used to replace portions of the original FRSI on OV-099 and subsequent. The AFRSI affords the higher degree of heat protection necessary for launches from the west coast and will result in a net savings of approximately $2 million in FY 1983. AFRSI costs less than LI-900 tile and it is easier to install.

SPACE SHUTTLE TILE DAMAGE

Question: During the flight of the first Space Shuttle in April 1981, one whole tile and pieces of 15 other tiles were missing. From the second flight in November, tile damage was limited to small nicks with no missing tiles. On the last flight, 37 whole tiles were lost and additional pieces or approximately 24 other tiles were missing. I understand that none of the missing tiles on the last flight were densified. Do you believe that the densification of the additional 6,000 tiles on the orbiter would resolve this problem or are there other factors associated with the debonding?

Answer: We believe there are three factors contributing to the mission tile problem. These factors are the undensified tiles, ground handling damage and puddling of the tile waterproofing liquid. The undensified tiles have approximately one-half the bonding strength of densified tile and will be replaced. Tape applied to protect tiles in high workload areas may be weakening the tile during the tape removal process. Tape removal procedures have been modified to proclude damage of this sort. Tests indicate tile bond degradation with excessive exposure to the waterproofing liquid. Water proofing procedures have been modified to reduce tile adhesive exposure to the waterproofing liquid.

SHUTTLE DATA SYSTEMS AND FLIGHT SUPPORT PROGRAM

Question: In FY 1982 you requested $35.7 million for your Shuttle related data systems and flight support program. In your FY 1982 Operating Plan, you increased this amount to $42.8 million or approximately 20 percent. Your FY 1983 request is for $12.7 million for a decrease of approximately $30 million. How do you account for this large decrease in data systems and flight support?

Answer: With the implementation of the Engineering and Technical Base (ETB) in FY 1983, and based upon its concept, the budget for the ETB provides for data systems computer support on a five-day, two-shift basis. The additional costs for sustaining a seven-day, three-shift operation are budgeted for in the Shuttle Operations account.

Question: Your budget justification states that in FY 1983 "data systems and flight support will provide a minimal core level of support based on a five-day, two-shift operation of the central computer facility at the Johnson Space Center". What implication does this have for mission operations?

What was your initial request to OMB for this activity?

What functions will not be performed as a result of this reduction to "the minimum level"?

Answer: The new minimum core level for the central computer facility has no impact on mission operations. Activities which require facility usage above the core responsibility, as is the case for support to Space Transportation Systems operations, will be charged the costs of the additional support; these costs are budgeted by the benefiting programs.

The initial request to OMB represented the same level of activity.

Based on the concept of the Engineering and Technical Base, any necessary functions not funded in the "minimal core level" would be budgeted by the benefiting program.

LIGHTWEIGHT EXTERNAL TANK

Question: Your budget justification states that sufficient funding needs to be provided in FY 1982 to assure that the "management and control systems" required for higher production rates of the external tank could be implemented. What specific management and control systems are you referring to and to what extent are these types of management actions creating a choke point rather than the physical production capability of the assembly plant?

Answer: The management and control systems refer to the automated management information systems required to support management in the different departments, i.e., finance, engineering, material, manufacturing, etc. During the development of the external tank, manual functions were adequate. However, as we moved into full production, the manual systems proved inadequate. These systems do not create choke points but are designed to identify them and enable their elimination.

Question: Your budget justification indicates that the first lightweight external tank is expected to be delivered in September and that six lightweight tanks are in production. Are you still on schedule to meet the September delivery?

When will the other five tanks be delivered?

What is the production capability of the Michoud Assembly Facility?

What are the major problems being encountered at that facility and what effect are they having on the production rate?

Answer: Yes, the first lightweight tank (LWT-1) is on schedule for an on-dock Michoud Assembly Facility (MAF) delivery of September 15, 1982.

There are currently eight tanks in production, two heavyweight and six lightweight tanks. The on-dock MAF delivery dates for these tanks are:

HWT-5	5/26/82
HWT-6	7/26/82
LWT-1	9/15/82
LWT-2	1/5/83
LWT-3	4/1/83
LWT-4	6/8/83
LWT-5	8/1/83
LWT-6	9/20/83

The current production capability is limited to about twelve tanks per year. With the completion of the FY 1983 and FY 1984 facility's projects at MAF and the acquisition of the additional tooling, the production capability should support 24 flights per year by FY 1988.

There are no major problems being encountered at this time. Last year there was a concern about certain facility modifications and bringing on-line an automated ablator spray facility. These modifications have been completed and the new spray facility has been proven with a successful application on the first lightweight tank.

Question: You estimate that the production rate will go to 40 per year by 1987. What changes will have to be made to achieve this objective and how many can be expected during FY 1984 and FY 1985?

What is the current estimated cost for the lightweight tanks for this first production run?

How does this compare to the cost experienced for the tanks used on STS-1, STS-2, and STS-3?

What is the cause of this large cost increase?

Answer: Our current program requirements are to support a flight rate of 24 flights per year by FY 1988. We are assessing an option to go to 40 flights per year by FY 1991. To meet the 40 flights per year flight rate requires additional tooling expenditures in FY 1984 through FY 1987 and additional facilities in FY 1985 through FY 1987.

By the time the twelfth lightweight tank is produced, we expect the unit cost to be approximately $35 million (FY 1983 dollars).

The external tank costs for STS-1 through STS-3 averaged about $55 million. The more significant reasons for this large difference are:

1. Included in these costs are those associated with supporting the basic production facility. Since many of these costs are nearly fixed, the first few tanks are much more expensive because there were so few (about six) tanks over which to allocate these costs. At delivery of the twelfth lightweight tank, there will be nearly three times as many tanks in flow that will share in these factory support costs. More simply stated, it is inefficient to operate a factory at a low production rate when it is designed for a much higher rate.

2. Unit costs of the first three tanks were also higher because they include a significant amount of rework associated with system requirement changes and problems encountered with "first time operations."

3. There is learning which takes place with each tank produced. This learning is applied to subsequent tanks to drive cost down. Specifically, we expect, based on similar production experience, that the "hands-on labor" through learning can be

reduced about 84 percent every time the total number of tanks produced is doubled.

In summary, unit cost comparisons of the first few tanks can be misleading for the reasons just discussed. While we are confident that the twelfth lightweight tank can be produced for about $35 million, we believe it is possible, and we are committed to reducing unit costs below $24 million (FY 1983 dollars) by the fortieth lightweight tank.

EXTERNAL FUEL TANK COST SAVINGS

Question: In your opening statement you discuss the need to control the cost of Shuttle operations. You cite the external fuel tank as "perhaps the best example" of potential cost savings if the necessary investments to automate production procedures are made in the front end. Could you expand on this statement?

Answer: Comprehensive programs are underway by the contractor and NASA to reduce costs. Some examples are: A producibility program is working toward a goal to save $66 million on the first 54 lightweight tanks. Fourty-four specific items are being implemented that will result in about $.5 million savings per tank. Some 50 more changes are in work. All these changes will provide a very attractive return on investment. Typical examples are injection molded thermal protection components versus hand molded and automated weld mismatch and peaking measurements.

An advanced manufacturing technology effort is implementing many automated improvements. Some examples of computer controlled operations are: (1) welding and machining; (2) cleaning, priming, and insulation spraying of tanks; and, (3) LH_2tank proof testing.

Other automation studies underway include plasma arc welding, weld x-ray inspection, and various applications of robtics.

SHUTTLE LAUNCH AND LANDING COSTS

Question: Your FY 1982 requests for design, development, test and evaluation--launch and landing was $199 million. Your current plan for FY 1982 shows this item at $260 million. Your budget justification notes that the cause for the $61 million increase is related to the support for launch processing operations and for facilities and equipment modifications necessary to resolve problems experienced during the first two Shuttle launches. What specific problems were encountered during these launches that resulted in the increased costs?

To what extent will the changes result in increased operational costs for subsequent flights?

Your FY 1983 budget does not contain a request for launch and landing design, development, test and evaluation. Under what line would additional DDT&E work be performed in the event that it is required and how much is available under that line for such activities?

Answer: Some of the specific problems include:

- debonding of a large area of super light ablator (SLA) type insulation from the STS-1 external tank, requiring pre-launch proof of tests for STS-2, 3 and 4;

- damage to the launch pad;

- overpressure wave from the solid rocket booster's ignition;

- cleanup spill of nitrogen tetroxide on the orbiter and replacement of tiles for STS-2;

- rework required on the gaseous oxygen vent collector and wing arm;

- provision for tile densification;

- required change of the lubricating oil and filters in two auxiliary power units; and,

- design change of PGHM J-hooks.

The changes in general have improved system performance at a one-time cost without recurring costs. Some changes, such as pad hardening to reduce launch pad damage, will actually reduce operational costs for subsequent flights. The change to reduce the overpressure wave involves a recurring cost of approximately $50,000 per flight to replace the water hammock hangers.

The DDT&E budget has provided an adequate line of launch processing facilties and systems, as evidenced by the first three Shuttle launches. Additional DDT&E work to establish the launch capability for the early years of operations is not anticipated and therefore has not been budgeted.

Expansion of the launch capability through adding a second line of facilities is currently funded in Production. As additional equipment and facilities become necessary, the funding to provide them will be requested in this same launch and landing budget account. The funds to support launches during the operational era of the Space Shuttle are requested in the Space Flight Operations budget.

SHUTTLE RESERVE

Question: How comfortable are you with the $72.5 million for Changes and Systems Upgrading in FY 1983 in light of the unexpected uses of $300 million of the funds designed for this purpose in FY 1982 and the fact that we still have one flight left in FY 1982 and five flights in FY 1983?

Under what circumstances would this amount be insufficient?

Answer: The current FY 1983 budget estimates reflect a philosophy of providng a maximum of the available programmatic reserves to the projects rather than holding a substantial amount at Headquarters as was previously done in FY 1982. This approach requires both Headquarters and field center personnel to work more closely on monitoring the usage of the reserves throughout the year. Since the project managers realize that there are only limited unallocated funds at Headquarters, they have to do a better job of living within their allocated budget. Therefore, we are more confident that the estmates we are now getting from our project offices are more realistic especially in terms of additional reserves required. Based on this budgeting approach, we are reasonably confident at this time that the Changes and Systems Upgrading amount will be sufficient for FY 1983, barring any major unforeseen problems which might cause significant schedule delays or redesign and modification efforts.

SPACE SHUTTLE PRODUCTION

Question: Your budget justification states that your highest production priority for the Space Shuttle is to maintain the delivery schedule for Orbiter 099 and Orbiter 101. What are the current schedules for the delivery of these two orbiters?

What are the most significant production, cost and technical issues that remain to be resolved in order to meet this schedule?

Answer: The on-time deliveries of OV-099 and OV-103 remain our highest orbiter production priorities. OV-099 is scheduled for delivery to the Kennedy Space Center in late June 1982; OV-103 will be delivered in late September 1983.

We have just held a top level detailed review of the status of OV-099 and feel confident that delivery will occur on schedule barring any last minute problems. There are no significant production issues on OV-099 at this time. There still remains considerable work on OV-099 and completing this work -- primarily, tile installations and factory testing -- in the time left will be the most difficult task.

The outlook for OV-103 is essentially the same. Some time was lost early in the manufacture of OV-103 due mostly to late parts deliveries. These problems have been generally resolved and schedule time is being recovered. Thermal protection system installations are scheduled to begin this month and major structural elements will be arriving at the assembly facility throughout the summer. We also believe that OV-103 will be delivered as planned in September 1983.

Question: Your justification also includes that certain Orbiter 104 activities scheduled for FY 1982 may have to be delayed because of a lack of available resources. Could you please expand on that statement and indicate what activities are expected to be delayed and the specific funding shortfall that are responsible for these delays?

Based on your FY 1983 request for $1,585,500,000, do you anticipate any additional delays in Orbiter 104 during FY 1984?

Answer: This statement was included to stress the priorities of OV-099 and OV-103 over OV-104, should funding problems occur. Currently, we have not found it necessary to rephase any planned FY 1982 OV-104 activities; however, at this time it appears that some schedule slippage is being encountered due to the priority assigned to completing OV-099 and OV-103. The schedule slippage is not considered serious at this time because our recent experience indicates that lost schedule can be made up until late in the build cycle.

Further, the delivery date of OV-104 is being studied in the total context of procurring a fifth orbiter. Should we receive approval to manufacture a fifth orbiter, it may be prudent to adjust the OV-104 delivery date of December 1984 in order to achieve a better balance between OV-104 and OV-105 manpower requirements, thus avoiding costly peaks and valleys in contractor activity. At this time, we are continuing on our plan that would deliver OV-104 in December 1984.

SHUTTLE SPARES

Question: During FY 1982 you have programmed $193,000,000 for Shuttle spares and equipment. Your FY 1983 request is for $323,000,000 or an increase of $130,000,000 or 67 percent over the FY 1982 level. Your budget justification indicates on page RD 1-24 that sufficient initial spares are being procured to provide support for a flight rate of 13 flights in 1985 and that flight crew items will be procured to support flight and backup crew needs for training through STS-15 and for flights through STS-14 which is currently planned for April 1984. Why do you feel it is necessary to stockpile parts so far in advance of their potential use?

Answer: Shuttle spares procurements are based on phased costing. This means, for example, an item taking 30 months to deliver might be authorized or released for procurement during FY 1982, and during this year perhaps 10-20 percent of the item price would actually be costed or paid out to the vendor. During FY 1983, as work progressed, some 40-50 percent of the item price will be costed, still prior to delivery. Finally in FY 1984, when work is completed and the spare unit is delivered, the vendor is paid the final amount due. Accordingly, NASA must have the available funding to meet its contractual obligations in line with the cost accrual schedule. At present very few spares are stockpiled. Spares are bought no sooner than the estimated hardware replacement need date, a calculation which takes into account the availability of production of test assets. Essentially all spares are laid-in as late as is reasonable based on the test information available to NASA and its contractors on hardware failure/demand rate, launch rates, repair turnaround times, or other consumption history.

Question: You state in your justification that you are planning to procure at least one of every functional line replaceable unit by 1985. What is the FY 1983, FY 1984, and FY 1985 total to establish this spare parts inventory?

Answer: The total required to procure just one of every functional line replaceable unit (LRU) over FY 1981-1984 is approximately $130 million ($10 million-FY 1981, $40 million-FY

1982, $60 million-FY 1983, and $20 million FY 1984). Various spares require more than a quantity of one to allow for normal expected failures and processing demands. When these are added, plus the cost of logistics managment and analysis to support that procurement, the total cost should be approximately $340 million though FY 1985.

SPACE SHUTTLE LAUNCH SYSTEMS SUPPORT

Question: Your FY 1982 Operating Plan calls for $59.5 million for Shuttle launch systems support under your development, test and mission support program. Your FY 1983 request for this activity is for $2.8 million. What was your original request to OMB for this activity?

What additional functions would have been performed with this higher level of funding?

Answer: The OMB and Congressional requests were identical.

The Shuttle launch systems activity which has been funded within the Space Flight Operations account for Development, Test and Mission Support in previous years and in FY 1982 is fully budgeted in FY 1983 within Space Flight Operations under the Space Transportation Systems Operations budget element.

Question: The budget justification states that the FY 1983 level represents a "minimal manpower level" to develop, maintain and capitalize on the research and development technologies available to enhance space flight hardware, ground processing and support systems. It seems to me that these are particularly critical elements in the Space Shuttle program and that such reductions may, in fact, in the long run be penny-wise and pound foolish. Do you agree with my assessment that these program activities are important for the effective management of the Shuttle program?

Answer: We agree that these program activities are important for the effective management of the Shuttle program, but the Shuttle is not the only benefiting program. The Engineering and Technical Base (ETB) activity at the Kennedy Space Center (KSC) will address the KSC capability needed to support future efforts, such as other payload programs.

SOLID ROCKET BOOSTERS

Question: In FY 1982, you requested $17 million for the solid rocket booster research and development program. Your current FY 1982 plan shows a requirement for $30 million for this program. As part of the justification for this change you cite "an increase in the cost of labor". Could you please explain how much of the additional $13 million is associated with increased labor costs and how much is associated with the delayed material procurement and other technical issues?

What is the current status of the solid rocket booster high performance motor?

Does it appear that this development program will result in an increase in approximately 3,000 pounds in the payload capability of the Shuttle?

During both STS-1 and STS-2 flights, the solid rocket motor casings sustained damages in the aft skirt during re-entry. I understand that in the most recent flight, re-entry did not result in any damage to the solid rocket boosters. Do you believe that the problems with re-entry have now been successfully resolved?

Answer: Approximately $3 million is associated with increased labor costs. About $5 million is for design changes and modifications to repair STS-1 through STS-3 hardware. The remaining $5 million is for high performance motor materials and testing that shifted in FY 1982.

Prior to the first flight of the solid rocket high performance motor, two qualification motor firings are planned: one in August 1982 and the other in March 1983. Both of these firings are on schedule and will support the first flight of the high performance motor by July 1983.

The high performance motor will provide a payload increase of approximately 3,000 pounds over the performance of STS-1 and STS-2.

During STS-1, there was some minor damage to the solid rocket motor case on one of the two motors. No damage occurred to the motor cases during STS-2.

The most significant damage was to the aft skirt structure on all STS flights to date. The aft skirt is attached to the aft end of the motors and houses the Thrust Vector Control (TVC) subsystem. This damage occurred during water impact. The TVC subsystem has also sustained damage during re-entry and water impact. However, the aft skirts and TVC subsystem hardware are repairable and will be reused on future flights.

The motor casings were not damaged. However, there was minor damage to stiffener rings attached to one of the motors.

Aft skirt structural modifications have been incorporated on STS-4. We believe these modifications should prevent the type of damage experienced in the first three flights.

Elimination of the TVC subsystem damage is more difficult to correct. Studies are in progress to determine changes required to better protect this system.

SHUTTLE MAIN ENGINES

Question: The development effort to increase the main engines performance to full power level (109 percent of rated power level) is the current principle program focus for your Shuttle engine development program. Sixty-four tests and 13,574 seconds of operation at the full power level had been run through December 1981. During 1981, several engine problems at the full power level were discovered during development testing. On July 15, 1981 and on September 3, 1981, two main injector liquid oxygen posts failed during testing resulting in substantial injector damage on two test engines. Also, on July 14, 1981, a fuel pre-burner liquid oxygen post failed, resulting in pre-burner face plate erosion. After substantial analysis, fixes were designed to proclude further problems of these types. Your budget justification indicates that flight certification of the full power level engines began in FY 1982 and should be completed in FY 1983. How has the recent incident affected the expected completion date?

Answer: At this time, completion of certification of the full power level engines is still scheduled for February 1983. We have been able to retain this schedule date in spite of the problems encountered during testing due to the early start that was made on the certification testing.

MAIN ENGINE EXPLOSION

Question: On April 7, 1982, the Shuttle Engine 2013 was totally destroyed at 392 seconds into a full duration test. The engine was running at a 109 percent of a full power level at the time of the failure. What is your current estimate of the FY 1983 cost for engine replacement, delays in main propulsion testing and additional turbo pump spares that will be required as a result of this incident?

Answer: Our current estimate is $15-25 million in FY 1983.

SHUTTLE THRUST AUGMENTATION

Question: Currently the payload capability of the Shuttle is rated at approximately 40,000 pounds--is that correct? This is a considerable shortfall from the design standard of 65,000 pounds. Currently, NASA is undertaking a series of actions in order to increase the capability of the Shuttle, including providing filament wound casings for the solid rocket boosters, producing a lightweight external tank, and providing main engine thrust levels at 109 percent of the engines rates power levels. Could you please briefly describe the expected pay off in terms of increased payload capacity for each of the measures that you are now actively pursuing, including the costs of development and the expected schedule for completing each of these development efforts?

Answer: The items in the enclosed Table G represent the most significant program actions to increase the payload delivery capability of the Space Shuttle.

FIFTH ORBITER

Question: How much do you have in your management reserve for a fifth orbiter?

Answer: NASA currently has no reserve specifically identified for OV-105.

Question: I understand you now have a proposal for private financing of the fifth orbiter. What is the status of this? Is NASA discussing this with others in the Administration? Do you have any views on this proposal?

Answer: The Space Transportation Company, Inc. (STC) has submitted to NASA a proposal to fund the fifth Space Shuttle orbiter (OV-105) for NASA. Basically, STC proposes to provide NASA with OV-105 in exchance for the exclusive right to market and contract for all commercial and foreign Shuttle flights. The elements of this proposal currently are under review within NASA.

Yes, the proposal is being reviewed with other members of the Administration. We are reserving judgment on the merits of the proposal until we have a clear understanding of all its aspects. It is, of course, an intriguing proposal. It does raise some difficult questions, and obviously the best interests of the U. S. Government and other related factors of the proposal need to be carefully gone over. The need to consider legislative action by the Congress would be a prerequisite before any positive action on our part in regard to STC's proposal.

SHUTTLE FACILITIES

Question: Are you confident that we are making the adequate investment in Shuttle facilities to make it a truly operational system?

Is the way we are making the investment the way a company would invest in the facilities portion of a program such as the Shuttle?

Why did you decide to lease/purchase office trailers at the Kennedy Space Center rather than build more permanent facilities?

Answer: Yes, we are adding facility capability incrementally as needed for each function or work station along the manufacturing and processing lines to produce and process the number of vehicles necessary to satisfy the mission manifest as the flight rate increases during the next several years.

Yes, we are adding facilities incrementally along with manufacturing and processing lines with priority coinciding with need.

We instituted the office trailer lease/purchase arrangement to acquire the trailers as quickly as possible. A determination had been made that there might be a remote, but real safety risk to keeping those non-hands-on processing people in the Vehicle Assembly Building where solid propellant rocket motor segments were being handled and assembled for the Space Shuttle launches. The lease/purchase office trailer concept was the quickest method of moving people out of the Vehicle Assembly Building, for their own safety, with minimum immediate costs and without delaying Shuttle launch preparations for reasons of personnel safety. The trailers were considered as initial temporary housing which may be continued indefinitely or may be replaced by more permanent facilities if so indicated by an economic evaluation to be prepared within this coming year.

AVAILABILITY OF ADDITIONAL FACILITIES

Question: Under your current plan, when will launch Pad B be available for use at the Kennedy Space Center? What additional resources would be required to assure that the Pad would be available by January 1, 1986?

When will Firing Room 3 in the Launch Control Center be modified and activiated for DOD-secure missions? How much is DOD reimbursing NASA for this activity and how much is being funded by NASA?

When will the work on the Solid Rocket Motor Processing Station be completed?

How much have you allocated in your FY 1983 budget for this activity?

Answer: Launch Pad B will be available for use September 30, 1986. To insure Pad B availability by January 1, 1986, would not require additional resources over the long run, but it would require additional resources in FY 1983 and FY 1984 to procure the necessary ground support equipment and to insure its timely activation. Assuming that Pad B could be made available nine months ahead of current schedule, the additional impact to FY 1983 could be as much as $18 million and to FY 1984 as much as $7 million. Projected funding levels in FY 1985 and FY 1986 would be reduced by approximately $20 million and $15 million, respectively. The net reduction would be approximately $7 million, assuming there are no unknown costs for the acceleration.

Firing Room 3 in the Launch Control Center will be activated on December 31, 1982. DOD is reimbursing NASA for those costs necessary to adapt Firing Room 3 from the NASA-standard nonsecure firing roon to the DOD-secure firing room. NASA requires the use of this firing room (nonsecured) part-time to meet the NASA manifests and can share it with DOD (secured) the remaining time for DOD missions. The following table shows the DOD and NASA costs for Firing Room 3 and peripheral support areas:

	Total Estimated Cost ($ in millions)	
	R&D	CoF
DOD	$15.5	$ .9
NASA	$36.0	$2.3
Total	$51.5	$3.2

The solid rocket motor processing station will be completed January 31, 1984. We have allocated $10.1 million in the Research and Development budget for this station. There was also $12.4 million appropriated in the FY 1982 Construction of Facilities budget. This facility is being constructed for solid rocket motor preliminary assembly, rotating/processing and storage outside the Vehicle Assembly Building.

INERTIAL UPPER STAGE/CENTAUR

Question: Last month you provided the Subcommittee with a table displaying the runout costs for launching Galileo and ISPM on both IUS and Centaur. Could you please provide this for the record?

Answer: The requested table is enclosed as Table H.

Question: What is the current status of the Centaur and IUS contracts?

Are you still discussing high energy upper stages options with DOD? How much money is NASA prepared to commit to a joint study during FY 1982 and FY 1983?

Do you expect to degrade the science at all by using the IUS vehicle instead of the Centaur?

Answer: The Centaur/STS contracts have been terminated. Development of the modifications required to the two-stage IUS for planetary missions has been initiated, and the order for long lead production hardware for the Galileo and International Solar Polar Mission (ISPM) flight vehicles has been released to Boeing.

Discussions are underway between DOD and NASA on high energy upper stage options. NASA has committed $1 million to a joint study starting in FY 1982. It is estimated that NASA's share of the joint study in FY 1983 could be approximately $15 million. There are no funds now specifically identified in FY 1983 for this effort, but we will be reviewing our requirements within the total FY 1983 budget request to identify a source of funds to support this study.

Estimating precisely the percentage of the overall Galileo science which can be achieved by an interial upper stage launch is very difficult. In looking at the primary objectives, however, one can group the investigations into the following categories:

1. Probing the atmosphere of Jupiter,
2. Observations of the planet Jupiter,
3. Observations of the satellites of Jupiter, and
4. Observations of the magnetosphere

With regard to items 1, 2, and 4 above, we estimate that there is greater than a 90 percent probability of achieving 100 percent of these science objectives with the inertial upper stage.

With respect to item 3, our preliminary mission design studies indicate that the inertial upper stage mission will allow six encounters as opposed to eleven encounters with the Centaur.

Therefore, some science will be lost with the reduced number of encounters, but it is difficult to estimate exactly how much.

Consequently, while it is difficult to give precise figures of the science loss, there is a high probability that 85 to 90 percent of the overall mission science can be successfully achieved with the inertial upper stage.

Question: In describing your changes and system upgrading line item, you note that a specific reduction of $25 million was possible in FY 1982 due to the discontinuation of the NASA development of the Centaur as a Shuttle upper stage. Of course, you know, that final Congressional action on this issue is not yet complete, although you have assumed in your budget that it would support your position. However, that is not my point at this time. Your budget justification on page RD 2-26 indicates, however, that an increase in the FY 1982 budget estimate for upper stages operation must be increased by $25.5 million to provide for the phase procurement of two additional two-stage IUS vehicles to support a 1985 Galileo launch and a 1986 International Solar Polar Mission launch. Does this imply that the net effect of a switching Centaur to IUS is essentially zero in terms of your FY 1982 budget?

What is the net effect in FY 1982 assuming that the requirements for Centaur will be in the order of $70 million during this year?

Answer: The upper stages operations budget (current estimates) for FY 1982 provides for an increase of $27.5 million for IUS hardware acquisition. However, the current estimate for upper stages DDT&E decreased by $51.8 million, from $75.0 million to $23.2 million. The $25 million decrease in the current estimate for the Space Shuttle attributed to the Centaur decision reflects the deletion of funding requirements for modifications to the orbiters and Kennedy Space Center ground support equipment to accommodate the Centaur/STS upper stage. The net effect, therefore, in Space Transportation Systems in FY 1982 for switching from Centaur to IUS was a decrease of $49.3 million.

If NASA were directed to return to the Centaur and cancel the IUS development and acquisition, it would be necessary to slip the Galileo launch to the 1986/1987 timeframe.

The total additional NASA FY 1982 requirement to support a FY 1986 Galileo launch using Centaur as the upper stage is estimated at approximately $34.0 million. Because of the delay in getting started this fiscal year, this estimate could be reduced by about $20.0 million with some schedule risk.

Question: You estimate that the cost of changing from a Centaur launch to an IUS launch will add approximately 30 months to the trip time for the Galileo mission. This will increase the Galileo total project costs by an estimated $170 million. There is, as you point out, a decrease in the upper stage development requirements. Could you please provide the amount of the decrease?

Answer: The amount of decrease in upper stages development is approximately $190 million. This is derived by taking the probable cost of the development of the wide-body Centaur ($250 million) and comparing it with the development estimate for the two-stage planetary IUS ($60 million).

Question: On November 4, 1981, a report was transmitted on upper stages. After 90 pages of analysis, the report concludes with the following conclusions:

"The Centaur is the only vehicle capable of meeting near term NASA planetary requirements, particularly the need for a Galileo combined orbiter/probe mission on a direct trajectory to Jupiter in 1985. The Centaur will satisfy the future envisioned and proposed NASA planetary missions through the mid-1990's. The Centaur can also be adapted to meet both current and projected NASA and DOD earth-orbiting requirements and its early availability could provide considerable enhancement to DOD mission capabilities. Development of a cryogenic upper stage will strengthen the U.S. leadership role in both hydrogen/oxygen engine technology and in payload life capability"; and recommends: "In order to satisfy the national mission requirement/needs of both the DOD and NASA, the Air Force should continue development and production of the IUS and NASA should develop the Centaur." I assume from your official actions in terminating the Centaur program that you do not agree with the findings and recommendations of this joint NASA/DOD report.

Answer: Subsequent to that report, which investigated the long-wide-body Centaur payloads, we initiated a study with the Air Force that reviewed the requirements that would be met by a short (20 feet), wide-body Centaur. The conclusion of that study was that the DOD did not have a firm requirement for that stage. This reinforced the Agency's position that the requirement for the Centaur could only be justified on the basis of two missions, Galileo and ISPM, and, from a pure economic standpoint, such an expenditure for two missions cannot be justified.

SPACE STATION

Question: You state in your opening statement that you are critically examining the possibilities of establishing a permanent presence in space as a major national initiative and have begun appropriate discussions with the Administration to this end. Could you please describe the parties to this discussion and the various options that are being considered?

Answer: Discussions have been held with the scientific community, the national security community, and other possible users of a space station in an effort to understand potential requirements. The Executive Office has been informed of our planning activities. Options which have been discussed cover a broad range of capabilities, schedules, and concepts for evolutionary development and deployment including both manned and unmanned systems.

SPACE TRANSPORTATION SYSTEMS--ADVANCED PROGRAMS

Question: Your FY 1981 budget contained $11,800,000 for your Space Transportation Systems--Advanced Programs. Your FY 1982 budget contains an estimate of $8.8 million for this program. In FY 1983, you are requesting $11.9 million for the program. How do you account for this yoyo-type funding pattern in this program?

On page RD 2-19, you list a variety of activities that will be conducted under this program effort including unmanned platforms, permanently manned facilities in low-earth orbit, and Shuttle-derived heavy lift launch vehicle. Could you please briefly describe each of the programs mentioned on this page and provide an estimate of the FY 1982 and FY 1983 funding for each of these programs?

Answer: The Advanced Programs FY 1982 budget was subject to reductions in the amendment process. The FY 1983 budget reflects a restoration of funds for the program.

The funding plan in support of the FY 1983 budget, and description for the unmanned platforms, manned facilities and Shuttle-derived heavy lift launch vehicle are as follows: (Minor funding adjustments between these areas may be made during the year within the Advanced Programs budget).

Program Area	FY 1982 Estimate	FY 1983 Estimate
	($ in millions)	
Unmanned Platforms	2.7	3.0

This program area includes studies in experimental geostationary platform; growth versions of low earth orbit platforms; continuation of the advanced development phase of the Tethered Satellite System; and limited initiations of key engineering advanced developments.

	FY 1982 Estimate	FY 1985 Estimate
	($ in millions)	
Manned Facilities	3.1	4.0

In this program thrust, the continuation of Space Station Phase and Mission Analysis Studies are planned. Continuation of regenerative Life Support Systems Testing and some critical life support advanced developments are to be initiated.

	FY 1982 Estimate	FY 1983 Estimate
	($ in millions)	
Shuttle-Derived Launch Vehicle	.3	.2

Two classes of Shuttle-derived vehicles will be studied. An expendable vehicle based on Shuttle solid rocket motors that could be considered as a backup system for the Shuttle. The second is a heavy-lift vehicle wherein a large payload container is substituted for the orbiter in the Shuttle cluster yielding potential lift capability in the Saturn V class (150,000 pounds).

SPACE PLATFORM

Question: Please provide a list and description of each of NASA's unique project numbers which will support activities having to do with the space platform studies during FY 1983. Also provide the amount of funds associated with such studies in each account.

Answer: Planned Space Platform efforts in FY 1983 for technology developments are funded under Advanced Programs. Three million dollars is currently allocated for Space Platform efforts in FY 1983.

SPACE SHUTTLE OPERATIONS

Question: Last year I questioned you about the findings of the McKinsey Report on the management of Shuttle Operations. The report raised some questions as to Johnson Space Center's (JSC) management approach in evolving from what is now basically design and development to less technical activities concerning the routine operations of the Shuttle such as flight schedules, user services, etc. What additional actions have you taken since last year to implement the report's recommendations?

What is your reaction to the transition suggested versus the type of transition the report indicates you are pursuing?

When do you expect the necesssary operational and organizational components of the Johnson Space Center to be in place and capable of supporting routine operations of the Space Shuttle?

Answer: As we noted last year, we do not consider all of the McKinsey and Company recommendations of equal significance or merit. As McKinsey noted in their conclusions, there are significant constraints on the validity of their recommendations due to the limited scope and the anticipatory nature of their study of February 1979 to January 1980.

Since last year, both NASA and JSC have made significant steps to move to a more streamlined operational organization. The two most significant actions are the consolidation of the acquisition and operations program management organizations at both Headquarters and JSC and the restructuring of the Flight Operations Directorate (FOD) at JSC. The FOD reorganization is to provide a structure within which the differing rate of maturity of mission phases can be more readily accommodated. The FOD reorganization moves toward standardization of training and planning for launch, post-launch, pre-entry and entry sequences while leaving organizational flexibility to deal with yet to be defined on-orbit operations and still to be negotiated optional services. In addition to these organization structural changes, JSC has moved almost 100 Civil Service personnel from development and qualification to operations. Within the support contractor structure, there have been even more significant relocations of effort from development to operations support.

In assessing these moves, it is important to note that the focus of JSC activity is on the unique on-orbit aspects for each mission. Crew and controller training for launch, post-launch, pre-entry and entry sequences are being standardized as much as possible. As a consequence, "routine operations" at JSC represent a somewhat more dynamic environment than the more hardware-oriented activities at MSFC and KSC.

McKinsey defines the transition period as the span of years required to obtain launch sites on both coasts, a fleet of at least four orbiters and at least one flight of each significant design changes which could jeopardize the safety and integrity of the flight system.

In addition, the transition period could encompass details such as demonstration of all the fundamental operating modes such as Spacelab sortie and spacecraft recovery or servicing missions. JSC's implementation planning deals with the transition period by differentiation among mission phases which achieve standardization and routine implementation at different times. When major changes are introduced, the system reverts to a more research and development mode. Some parts of the mission will be routine as early as STS-5; other mission phases will not achieve such maturity until after STS-30.

Maturity is not a point in time or quantity, but a judgment as to quality of the equipment, our understanding of its nature, our confidence in relying upon design redundancy and a certain acceptance of risk. We should recognize that "mature operations" implies a stable schedule and an unchanging set of system design requirements.

The basic elements of the operational organization are in place and have been throughout orbital flight test. Beginning with STS-5, new operating modes will be introduced in flight planning, crew training, and mission management. In one sense, all of the basic elements for routine operations will be in place by the end of 1982. There are tasks still to performed to provide accommodation for higher flight rates.

Question: The user service component of the Shuttle program is crucial to both the purposes and the success of our space program. How will the user service change in going from the use of expendable vehicles to the Shuttle vehicle?

Answer: User service has long been one of the strong points of NASA expendable launch vehicle launch services. The Shuttle user service effort is drawing from the expendable program's experience in customer relations. We have expanded the user service activity within NASA for the Shuttle by creating dedicated user oriented organizational elements within NASA Headquarters and the Johnson and Kennedy Space Centers. The Shuttle system offers the user community a vast array of new capabilities heretofore unavailable with expendables, and we are actively marketing those capabilities. The challenge is to demonstrate that the system is operational, that it can meet customer launch timing requirements, and that it is competitive in terms of price.

SHUTTLE OPERATION COST INCREASES

Question: Your Operating Plan for FY 1982 contains $435,300,000 for Shuttle operations. Your request for FY 1983 is for $1,316,600,000, or an increase of $881,300,000. Based on the fact that you had three flights during FY 1982, your average per flight cost for Shuttle operation would be $145,100,000. Your plans for FY 1983 involve five flights. Given this request, the average cost per flight in FY 1983 would be $263,300,000. How do you explain this 81 percent increase between FY 1982 and FY 1983?

Answer: The three Shuttle flights in FY 1982 cannot be analyzed in terms of the amount requested in the Shuttle Operations FY 1982 Operating Plan. These three flights are development flights and are funded by Shuttle DDT&E. The FY 1982 amount for Operations provides for the mission designs, planning, and training (essentially all manpower) and the procurement of hardware (external tanks and solid rocket boosters, for example) for the operational flights scheduled to begin in early FY 1983. In addition, the completion of the DDT&E phase in FY 1982 (with the completion of the development flight program) means that the manpower costs for FY 1983 and subsequent years associated with the pre-launch, launch and recovery operations are funded, beginning in FY 1982, under Shuttle Operations. This element coupled with the costs of procuring greater quantities of flight and ground hardware to support and increase the flight rate, means that the apparent $881 million increase in the request for Shuttle Operations is misleading; inclusion of the amount requested in the DDT&E budget for FY 1982 is necessary to make a gross comparison of the FY 1982 and FY 1983 requests.

SPACE TRANSPORTATION SYSTEM REIMBURSABLE PROGRAMS

Question: During FY 1982, you estimate reimbursements for the Space Shuttle of $681,000,000. In FY 1983, the estimate is $171,000,000. Could you please explain this rather large discrepancy in your reimbursable program for the Space Shuttle?

For Space Flight Operations your estimate of reimbursements during FY 1982 is $179,200,000. For Space Flight Operations in FY 1983, the corresponding number is $357,200,000. Could you please explain this rather large increase in reimbursements for NASA's Space Flight Operations activities?

Answer: Due to an administrative error, the reimbursable estimates included in the FY 1983 budget submission were incorrect. The correct current values are shown below.

	FY 1982	FY 1983
	($ in millions)	
SPACE SHUTTLE	116.7	78.2
o Orbiter	51.5	23.8
o Launch and Landing	64.2	52.8
o Shuttle Spares & Equipment	1.0	1.6
SPACE FLIGHT OPERATIONS	107.3	227.3
o STS Operations Capability Development	26.9	32.1
o Development, Test, and Mission Support	19.3	21.2
o STS Operations	61.1	174.0

Space Shuttle reimbursable activity primarily is due to the reimbursable support provided by NASA to the DOD for Vandenburg development. The scope of this activity is decreasing as the

Vandenburg activation proceeds toward operational status. Space Flight Operations reimbursable activity primarily reflects the reimbursements received from operational non-NASA users of the Space Transportation System for spacecraft launches. The amount of reimbursements received for STS Operations will increase substantially in the future due to the increase in the number of reimbursable launches on the Shuttle.

PAYLOAD SUPPORT OPERATIONS

Question: Your FY 1982 budget contained $28.2 million for STS payload support operations. Your current FY 1982 Operating Plan contains $20.2 million for this program. Your budget justification indicates that the funding decrease of $8 million represents "adjustments to the flight manifest". Can you please detail what adjustments were made to the manifest that resulted in these savings and what, if any, additional costs will be incurred as a result of these adjustments in the out years?

Answer: The most significant factors contributing to the $8.0 million decrease in FY 1982 funding are a reduction in the scope of analytical integration tasks in FY 1982 for the Galileo and International Solar Polar Missions and launch delays of about one year in the early Spacelab missions. Other launch delays reflected in our estimates involve the Tracking and Data Relay Satellite-D and Space Telescope missions.

The FY 1982 amended budget estimate of $28.2 million was based on our assessment of the impact of launching Galileo and the International Solar Polar Mission as single launches in FY 1985 and FY 1986 rather than as dual launches in FY 1984 and FY 1985 as previously planned in the initial FY 1982 budget request. Our reassessment of the analytical integration requirements for FY 1982, referred to above, led to the reduction in the current estimate.

No additional costs beyond inflationary factors which may occur are anticipated due to the above adjustments.

SHUTTLE PRICING POLICY

Question: When will an analysis of the Shuttle cost data be available in order to segregate recurring and nonrecurring costs?

Your preliminary data indicates operations cost of around $330 million per flight between now and 1986. You expect to incur costs of around $130 million per flight after 1986. How will these significant savings be achieved?

Your current standard price for all classes of users other than DOD is $18 million in FY 1975 dollars--or about $40 million today. How were these prices arrived at?

Answer: Generally, Aerospace contractors' accounting systems and procedures do not allow the identification of the costs incurred in support hardware or to a specific flight. This would require individual time card charges for each unit. In the development phases of the Space Shuttle program, many functions performed in the process of preparing for and actually supporting Shuttle flights are, therefore, not identifiable to a given flight. We are reviewing estimates for operational costs that are based on actual cost data collected on those functions where costs are typically collected at the contractors' facilities and these do reveal trends in learning and cost improvements. These estimates will be available in the near future.

Based on a preliminary analysis of cost projections submitted by the NASA centers, the average cost per flight for the five FY 1983 KSC launches will range between $140-$160 million in FY 1975 dollars. In FY 1986 the average cost per flight is expected to be about $60 million in FY 1975 dollars for 15 KSC launches. This decrease is due to the increased number of flights over which to spread the yearly fixed cost of Shuttle operations combined with decreased costs due to learning.

The current pricing policy was established in 1977. It provides for recovering total operations cost over the first 12 years. The development costs are considered sunk costs and not recovered. However, a use fee is charged to commercial and foreign users to cover a pro-rata share of Government facilities and equipment costs. Based on this policy, the operations portion of the price per flight was fixed at $18 million (1975 $) for launches through FY 1985. For launches in subsequent years, it is to be repriced annually, always three years in advance of when the new price becomes effective. In keeping with this policy, NASA is in the process of establishing a new price for flights to be flown in 1986.

Question: Your price for DOD is $12.2 million in FY 1975 dollars--or about $27 million today. How was this price arrived at, and why does DOD get a 32 percent discount compared to other users?

When would you expect to have a new negotiated price structure with DOD?

What role will foreign competitors play in the determination of a pricing policy?

Answer: The history of the DOD price is contained in Table I. The DOD will be charged an amount which is equivalent to the price of an STS launch for other civil U.S. Government users except:

The DOD price is discounted to account for the NASA/DOD agreement to provide launches for each other at KSC and VAFB in lieu of an exchange of funds, but it does include all materials and services less propellants.

The DOD will reimburse NASA in full for an STS launch in the fiscal year prior to the fiscal year of the launch, with payment to be made at least 12 months before the launch date.

Negotiations between DOD and NASA are currently underway, with resolution anticipated this coming summer.

DOD VS NON-DOD PRICE FOR DEDICATED SHUTTLE LAUNCHES

The NASA/DOD Memorandum of Understanding (MOU) of 1977 established a fixed price to DOD of $12.2 million (1975 dollars) for a dedicated Shuttle launch. The price was fixed for a period of six years. The price was based on estimates of the six year average materials and services cost. In addition, NASA and DOD agreed to exchange launch services (in lieu of further exchange of funds), on the assumption that these services were approximately equal in value. Therefore, there are two parts to the "Quid Pro Quo" between NASA and the DOD. The following is a discussion of each part in terms of how it compares to prices charged other users.

Material and Services Price

Materials and services were defined and valued as follows:

Cost Element	Cost Basis for NASA/DOD Agreement ($ in Millions - 1975)
External Tank	3.9
Solid Rocket Booster	4.1
Space Shuttle Main Engine	0.3
Crew Equipment	0.2
Orbiter Spares	0.5
Con. Admin.	0.2
TOTAL	9.2
Contingency	3.0
TOTAL	12.2

Because the average cost of materials and services are higher than estimated at the time the 1977 agreement was negotiated, NASA and DOD are renegotiating a new price for materials and services through 1985. After 1985, the materials and services charge to DOD will be adjusted annually as necessary to recover the actual total materials and services for the remaining nine years of the mission model.

Note that "materials and services" is not synonomous with "consumables." Consumables include the above listed materials and services plus propellants and ground support equipment spares. For the DOD, propellants and ground support equipment spares are covered under the exchange of services part of the Quid Pro Quo agreement.

NASA is, under the direction of DOD, modifying the Mission Control Center and training facilities at JSC to accommodate national security missions. The nonrecurring cost for these "controlled mode" modifications are payed by DOD, plus the operations and maintenance of these

Table I

DOD unique equipment and processes. On the other hand, NASA is providing funding for the national resources protection physical security of the facilities and environment at JSC.

NASA/DOD Exchange of Services

In the 1977 MOU, it was also agreed that NASA and the DOD would exchange launch services at KSC and VAFB in lieu of an exchange of funds for these services. Specifically, DOD agreed to provide launch operations, propellants and ground support equipment for all flights, DOD and non-DOD, flown out of VAFB. In exchange, NASA agreed to provide launch operations, propellants and ground support equipment (GSE) spares for DOD flights flown out of KSC and provide flight operations for all DOD flights, KSC and VAFB. At the time of the agreement, these services were approximately equal in value, as shown below.

NASA/DOD EXCHANGE OF SERVICES
($ in millions - 1975

DOD Support to Non-DOD Users

VAFB	Non-DOD Flts	X	Cost/Flt	=	Total
Launch Operations	84	X	7.5	=	630
Propellants and GSE Spares	84	X	1.1	=	92
TOTAL					722

NASA Support to DOD

KSC	DOD Flts	X	Cost/Flt	=	Total
Launch Operations	71	X	4.3	=	305
Propellants and GSE Spares	71	X	1.1	=	78
KSC and VAFB					
Flight Operations	109	X	3.0	=	327
TOTAL					710
Difference					+12

The Quid Pro Quo arrangement for the exchange of services with DOD is also being reexamined in light of the changes in the projected flight and mission model and the investment of the DOD in establishing the VAFB Shuttle launch capability.

It appears clear that foreign competition is having an impact already on the marketing of expendable and Shuttle launch services. The price for commercial and foreign Shuttle users will have to assure a competitive position in the market but not present additional burdens to the taxpayer for this non-Government usage.

Question: On April 16, **Aerospace Daily** reported that: "NASA has given three U.S. companies "flight opportunities", free of charge, to fly commercially-oriented experiments in Spacelab, the orbiting laboratory that was built by the European Space Agency, but is owned by the United States". Evidently, NASA is providing the payload space to the U.S. companies free of charge but the foreign users must pay a fee amounting to millions of dollars. Will this practice become part of your formal pricing policy?

What impact will the use and availability of U.S. expendable rockets have on Shuttle pricing?

Does your current thinking include the assumption that the United States will maintain a "mixed" fleet capability?

Answer: This article refers to the NASA Joint Endeavor Program administered by the NASA Office of Space Science and Applications. This program was developed to foster and promote early demonstration of the potential for commercial utilization of the Shuttle for space manufacturing (materials processing) and was designed to share the financial risk associated with such "leading edge" activity. NASA found that without such a joint NASA/U.S. industry program, it would not be possible to obtain serious interest and commitment of the part of U.S. industry for this important application of the Shuttle until long after the Shuttle had become operational. In addition, it would have placed U.S. industry at a competitive disadvantage with foreign industry, which is already teamed with foreign government activity to demonstrate this capability, including use of the Shuttle. Under NASA's program, the industry partner funds and provides the manufacturing facility to be flown on the Shuttle and NASA funds and provides the space transportation with certain of the benefits to be shared by NASA. Generally, the U.S. industry partner will retain full rights to its inventions and data. There is no exchange of funds between the NASA and industry partners. Because this is a U.S. Government sponsored program, participation is restricted to U.S. industry and it is being conducted in accordance with the policy published in the Federal Register on August 14, 1979, (Volume 44, Federal Register pp. 47650-47651). This program is separate from the basic Shuttle operations program and will, therefore, not be reflected in the Shuttle pricing policy.

The pricing of expendable rocket launches is currently covered by separate pricing policies. Although a combined pricing policy has been considered, the most direct impact of the continued use and availability of expendable rockets will be served as a benchmark against which to measure the competitiveness of the Shuttle.

NASA's commitment is to provide an assured launch capability. In order to accomplish this end, NASA will continue its expendable rocket programs until the Shuttle demonstrates the ability to accommodate all launch requirements.

SPACE TRANSPORTATION SYSTEMS OPERATIONS EFFECTIVENESS

Question: In your FY 1982 budget request, you asked for $10 million for your Space Transportation Systems Operations Effectiveness program. Your current FY 1982 Operating Plan calls for $3 million for this program. In FY 1983, you are requesting $4 million. This program is specifically designed to identify ways to improve the operational effectiveness and performance of the STS in terms of vehicle hardware, vehicle turnaround, cargo processing, systems software automation, mission operations and management procedures. Based on the importance of improving these operation elements, it would seem that NASA would place a higher priority on this activity. What was your request to OMB for this activity for FY 1983?

Answer: The FY 1983 NASA request to OMB for Operations Effectiveness was $4 million, the same as our request to the Congress. This provides for the studies and analyses of the Space Transportation System, while the cost of implementing major system changes is not by funding requested for other program elements (e.g., Space Shuttle Changes and System Upgrading).

NASA places a very high priority on improving the efficiency of the Space Transportation System. The funding level for the Operations Effectiveness program is appropriate and consistent with that priority.

Question: Your budget justification indicates that the reductions in FY 1982 were necessary as part of program "rebalancing" to meet current system requirements within "budget constraints". Your justification goes on to state that the FY 1983 funding will be used to develop approaches to solve the problems defined in FY 1982 studies and to begin implementation in "selected areas". What additional areas could implementation be initiated in with a larger budget and what is the potential payoff?

Answer: As indicated in the budget submission, the Operations Effectiveness program will not be limited to any specific areas, but will encompass all aspects of the Space Transportation System, including systems, operations, payloads, and management. The requested funding is appropriate for the number of studies which we plan to undertake. We will establish priorities to assure that our efforts are devoted to those specific changes with the largest projected benefits. The areas recommended for implementation and their expected payoffs will be determined as a result of studies now being defined. As indicated in the previous question, major implementation costs would be borne by other program elements.

EXPENDABLE LAUNCH VEHICLES

Question: What are your current production projections for the Delta launch vehicle and the Atlas Centaur for FY 1982, FY 1983, and FY 1984?

Answer: Our current production projections for the Delta launch vehicle and the Atlas Centaur for FY 1982, FY 1983, and FY 1984 are dependent on orders from our vehicle users. Currently, we have sufficient vehicles on order to satisfy all customers at this time. On our most recent production contract for Delta, which began in FY 1981, we ordered 14 vehicles; delivery will begin in December 1982 and will end, under our current planning, sometime mid-1984 with vehicle 184.

Atlas Centaur vehicles are also being produced in sufficient quantity to satisfy only firm customers. Only nine more launches are currently planned with this vehicle system at this time. All these vehicles are under contract with the last delivery planned for the first half of FY 1985 and the last launch for early FY 1987.

Question: During FY 1981, you budgeted $47.9 million for your Delta program. In FY 1982, you are estimating $30.4 million. In FY 1983 you have requested $42.8 million. To what do you attribute this funding pattern?

Your budget justification states that the Delta vehicle system is planned to be operational at least until 1985. What are your long term plans for the Delta system and how does this relate to your current pricing policy study?

Your budget justification also indicates that the development of an uprated second stage capability is continuing on schedule. When will this vehicle be ready to launch the Landsat-D satellite?

Are there any significant technical problems remaining in this development process?

Answer: The budget request to support NASA Delta launch vehicle requirements can be separated into two categories: hardware production and launch services. The NASA budgetary requirements for these categories fluctuate as a function of the timing of the hardware deliveries and launch services; this is illustrated in the following table:

NASA Missions	FY 1981	FY 1982	FY 1983
Dynamic Explorer (155)			
Vehicle Delivery	12/80		
Launch	8/81		
Mesosphere Explorer (157)			
Vehicle Delivery	1/81		
Launch		10/81	
Landsat-D' (162)			
Vehicle Delivery	9/81		
Launch		7/82	

IRAS (166)		
Vehicle Delivery	7/81	
Launch		1/83
Landsat-D' (171)		
Vehicle Delivery		12/82
Launch		To be determined
AMPTE (178)		
Vehicle Delivery		9/83
Launch		8/84 (FY 1984)

The funds requested cover the projected work planned to be completed during a given fiscal year. In FY 1983, for example, to support NASA missions, two vehicle deliveries and two launches are planned.

Based on user orders for Delta launches, our current plans reflect mission users through FY 1985 time period. Because about a three year procurement cycle is required for hardware and support for this vehicle, we are approaching the continuation on a year to year basis. We believe this flexibility allows sufficient time to support user demands for launches.

Our current pricing policy for Delta is based on recovery of the costs of providing Delta launches. At the low launch rates, which will be encountered as the Shuttle becomes operational, there are inefficiencies which will occur due to minimum launch crew sizing and manpower skill mixes, and the launch costs will increase and become increasingly noncompetitive with the prices for Shuttle and Ariane launches. We believe that the Delta vehicle system operation can be operated efficiently and economically at a six to ten per year production and launch rate.

We are pursuing efforts to reduce costs for Delta launches, including reviewing the overall production and launch sequence workload to eliminate or make more efficient the procedures being followed, and slowing down hardware production delivery schedules and revising launch schedules as much as demand permits to reduce the launch crew size.

The launch of Landsat-D is on schedule for July 1982.

At this time, the Delta vehicle system is not experiencing any significant technical problems.

EXPENDABLE LAUNCH VEHICLE DEVELOPMENT

Question: During FY 1981, NASA allocated $41.8 million for its expendable launch vehicle development program. In FY 1982, this was reduced to $15.7 million. In FY 1983, you estimate that it will be $30.9 million. What is the rationale for this rather large decrease in FY 1982 followed by almost a 100 percent increase in FY 1983?

What is the expected future of this program in FY 1984 and FY 1985 and the associated costs?

Answer: The title "Expendable Launch Vehicle Development" may be confusing. It represents the efforts associated with providing launch operations support for NASA and other U.S. Government missions as follows:

Missions	FY 1981	FY 1982	FY 1983
GOES-E	X		
Dynamic Explorer	X		
Mesosphere Explorer	X		
Landsat-D		X	
IRAS			X
Landsat-D'			X
San Marco-D_M/D_L		X	X

This launch operations support provides a minimum capability effort of manpower to checkout and launch our NASA expendable launch vehicles for the above missions. This NASA effort is a small part of the total launch operations support required to sustain a viable launch vehicle program. Our reimbursable users provide the bulk of the funding for launch vehicle operations costs.

NASA is currently planning to launch the Active Magnetospheric Particle Tracer Explorer in FY 1984. In addition, the Landsat-D' mission which is scheduled as a callup launch in FY 1983 may be delayed until FY 1985. Therefore, it is uncertain at this time how long NASA will have to maintain a launch capability to support NASA missions. Reimbursable launches are scheduled into FY 1985, and we are currently planning to maintain the Delta launch capability on a reimbusable basis at least through that period.

CONSTRUCTION OF FACILITIES - JPL

Question: What is the current status of the modifications to the Space Flight Operations Facility at the Jet Propulsion Laboratory? How has this been impacted by the budget situation?

Answer: The first phase of the Space Flight Operations Facility modifications was authorized in the FY 1982 Construction of Facilities program at a level of $9.3 million. The second phase which would have completed the project was originally planned to be funded in FY 1983. However, in support of the President's Economic Recovery program, the FY 1982 modification funding has been reduced to $1.0 million which is being applied against the highest priority safety modifications.

SOLAR MAXIMUM MISSION (SMM)

Question: On page RD 4-4 of your budget justification, you state that four missions continue to bring the physics and astronomy community a rich harvest of data. One of those missions is the Solar Maximum Mission. What data is currently being provided by the Solar Maximum Mission and how long would you expect this data to continue to be available?

Answer: The remaining operational Solar Maximum Mission (SMM) instruments are still providing data daily.

The Gamma Ray Spectrometer, built at the University of New Hampshire, is studying radiation from nuclear reactions and accelerated particles in flares. Since powerful flares are quite rare, one can continue to see new phenomena and make new discoveries over several years of gamma ray observations of flares. This instrument can, therefore, make valuable solar observations for the entire four years or so remaining in this solar cycle maximum. The instrument can also observe non-solar gamma rays from a variety of sources.

The Hard X-Ray Burst Spectrometer is observing the detailed time signatures of flare bursts caused by groups of electrons suddenly accelerated to very high speeds. The team for this experiment is located at the Goddard Space Flight Center. This experiment also obtains its best data during those rare flares which are extremely strong, and it is of great value for joint investigations with radio, ground-based optical, and other types of solar observers.

The Active Cavity Radiometer Irradiance Monitor (ACRIM) is under the direction of Dr. Richard Wilson of the Jet Propulsion Laboratory in Pasadena, California. The continuation of this data for as long as possible is of extreme importance to NASA's solar physics and atmosphere physics programs, since this is the first long-term, high-accuracy experiment ever flown for the measurement of the total energy output of the Sun and the variations in this output.

If there is no SMM repair, we estimate that this data return will continue from these three instruments until the spacecraft orbit decays to the point where any ability to point at the Sun is lost, which is predicted to occur sometime between mid-1984 and mid-1986, depending on sunspot activity. If the SMM is repaired, of course, the data return will be expanded for an additional two to three years.

Question: Page RD 4-21 of your budget justification shows that your FY 1982 budget estimate contained $5 million for extending the SMM. What did you have in mind when you projected the need for this $5 million in your March budget?

In FY 1982 you are requesting $9 million for the repair of the SMM in the form of a reprogramming request. You are also requesting $9.2 million in your FY 1983 budget. What is the total runout cost for the repair mission?

What are the additional costs that would be incurred in mission operations if the useful life of the SMM was extended through this repair?

Would NASA undertake the SMM through reprogramming if the Committee did not provide for the $9.2 million in FY 1983?

Has DOD indicated any interest in entering into a cost sharing arrangement on the SMM?

Answer: When the FY 1982 Amended Budget (March) was prepared, the Solar Maximum Mission spacecraft was working normally, and the $5 million requested for SMM Extended Operations was for continued operation of the spacecraft and experiments plus data analysis. However, by the time the FY 1983 budget was prepared, the SMM had encountered problems and some of the instruments had quit operating. Therefore, the FY 1982 column of the FY 1983 budget reflects a lower level of funding for the SMM Extended Operations because we are receiving less data and consequently have less data to analyze than originally planned. The total estimated runout cost of the SMM Retrieval/Repair mission is $45-55 million. The additional mission operations and data analysis funding is estimated at approximately $16 million for the two to three year lifetime extension which would result from the repair of the SMM. NASA considers the SMM repair to be a very high priority mission. Therefore, it is hoped that the Senate Appropriation Subcommittee would share this objective and support the requested FY 1983 funding. Should the Subcommittee elect not to provide the funds, NASA would, of course, have to consider reprogramming funds for this mission.

While the DOD is interested in the possible eventual benefits to their missions which would result from a successful SMM repair mission, NASA has not requested their participation in the repair mission. This is considered a NASA mission, involving a NASA spacecraft which, if successfully repaired, will return scientific data of great importance to the civil space program. It should be noted that a number of commercial and industrial applications in space may be planned and designed on the basis of the results of the SMM repair. This demonstration of the utility of the Shuttle will accordingly be of interest to both the future civil and defense users of the Shuttle's capabilities.

Question: Included in your Operating Plan for FY 1982 and FY 1983 are activities to support a demonstration of the Shuttle's ability to retrieve an operating spacecraft and repair it in orbit or return it to Earth for refurbishment. NASA has determined that the Solar Maximum spacecraft will serve as the target for this demonstration. Based on your most recent estimates, how long will the Solar Maximum spacecraft remain in orbit?

How long will that orbit and the stability of the spacecraft make it amenable to retrieval by the Space Shuttle?

Answer: Current studies indicate that orbital decay of the Solar Maximum Mission (SMM) spacecraft, if not repaired, will occur between mid-1984 and mid-1986, depending on the amount of solar sunspot activity.

EXTRA TERRESTRIAL RADIO SIGNALS

Question: The FY 1982 HUD-Independent Agencies Appropriations bill contained a provision restricting the use of funds for the definition and development of techniques to analyze extra terrestrial radio signals for patterns that might be generated by intelligent sources. As part of your Life Sciences program request for FY 1983, you request the reinstatement of a modest program effort in this area. Why do you think that such a program is justifiable?

How much will be devoted to this program in FY 1983? What are the out year cost implications?

Answer: NASA intends to obligate approximately $2 million on the Search for Extraterrestrial Intelligence (SETI) in FY 1983. The program is viewed as a research and development activity with the main purpose of evaluating promising data processing approaches to SETI, and at the same time, conducting some preliminary observations by using existing radiotelescopes. Our current planning assumes that approximately $2.5 million per year would be required for this type of activity for five years.

SETI is a modest but important venture in the exploration of space. A SETI program is considered a valid scientific enterprise by the scientific community. It has just received the endorsement of the Astronomy Survey Committee of the National Academy of Sciences, who recommended it as one of seven moderate programs for the next decade.

INFRARED TELESCOPE FACILITY

Question: What plans does NASA have to fund the Infrared Telescope Facility during FY 1983?

What discussions has NASA undertaken with the National Science Foundation in terms of the future of this facility?

What would be the total operating costs required to fund the facility during FY 1983?

In your opinion, would the facility be more justifiably funded, in the long run, by NASA or NSF?

Answer: We are still reviewing the possibility of operating this facility in FY 1983. The FY 1983 budget for this program may require a revision of support capabilities which could result in reductin and/or elimination of several research activities.

The required FY 1983 operating budget for the Infrared Telescope Facility is approximately $1.5 million.

Discussions were held with the National Science Foundation (NSF) regarding the possibility of NSF funding the Infrared Telescope Facility. The initial NSF response was that they were unable to take over the facility in FY 1983 because of budget constraints; however, they would consider taking over the facility in future years, if circumstances permitted.

The Infrared Telescope Facility was developed under the NASA Planetary program to fill a programmatic need. That need still exists. Therefore, we believe that NASA should continue funding of the facility if sufficient funds can be provided. In discussions with the NSF, they concur in this position.

NATIONAL SCIENTIFIC BALLOON FACILITY

Question: What plans does NASA have to fund the National Scientific Balloon Facility?

What discussions has NASA undertaken with the National Science Foundation in terms of the future of this facility?

What would be the total operating costs required to fund the facility during FY 1983?

In your opinion, would the facility be more justifiably funded, in the long run, by NASA or NSF?

Answer: NASA's FY 1983 budget assumes that we will provide the funding for the operation of the National Scientific Balloon Facility (NSBF) in FY 1983.

NASA and the National Science Foundation (NSF) are currently negotiating the operation of the NSBF for the future, and a draft Memorandum of Understanding between the two agencies has been prepared on how the NSBF operations will be conducted.

NASA has budgeted approximately $2.9 million in FY 1983 for the operation of the NSBF.

NASA is currently the major user of the NSBF; however, the NSF has the charter to provide scientific balloon support for the entire scientific community. It is, therefore, NASA's belief that the NSBF would be more justifiably operated by NSF.

GRAVITY PROBE-B

Question: Part of your Physics and Astronomy Research and Analysis program involved the conduct of feasibility and scientific definition studies on the Gravity Probe-B mission. How much money is in your FY 1983 budget for these definition studies and what is the current status of the program including possible launch dates?

Answer: The Gravity Probe-B is in a definition phase. Preliminary instrument requirements have been defined and spacecraft subsystems capable of meeting these requirements have been identified. A possible baseline program has been identified. In addition, the schedule and resources necessary to support it are currently being defined. The earliest that the Gravity Probe-B could be ready for launch, which assumes that it could be initiated in FY 1984, is in the early 1990's.

SPACE TELESCOPE DEVELOPMENT

Question: You currently have pending before this Committee, a request to increase the cap on the Space Telescope program by $2 million to a new total of $121.5 million for FY 1982. You have assumed that this request would be approved and have thus included the new amount in your FY 1983 budget justification. In that justification you state that the funds would be required in order to provide "additional management reserve". Evidently this reserve is needed to assure that the schedule for the Space Telescope is maintained. In the past this Committee has questioned NASA on the rather large reserves available for the Space Telescope program. Could you tell us how much is currently in your management reserve for the Telescope program and how much additional funds in other reserves is in this program?

Answer: With the proposed reprogramming of $2 million from Space Telescope operations to Space Telescope development, the total remaining FY 1982 reserve for development is approximately $3 million. Although this reserve is small, we believe that the FY 1982 requirements and risks have been fully defined and that the resources are adequate to accomplish planned FY 1982 activities.

SPACE TELESCOPE MAINTENANCE AND REFURBISHMENT

Question: In FY 1983, you are requesting for the first time funds for the maintenance and refurbishment of the Space Telescope. You state that the $11.1 million request would be used for the initiation of design and fabrication of support equipment and orbital replacement units to be used for Space Telescope maintenance and refurbishment. Under your current mission profile, when would such maintenance and refurbishment first be required?

Why is it necessary at this time to begin the procurement of this equipment?

Answer: The capability for pre-planned orbital maintenance of the Space Telescope is needed approximately 2 1/2 years after launch. This requirement is based on the life expectancy of components and subassemblies of the Space Telescope. In addition, there is a requirement for contingency maintenance capability starting at launch.

The initiation of maintenance and refurbishment efforts are determined by the schedules for design, manufacturing, and verification of the space support equipment that will be placed in the Shuttle orbiter to perform on-orbit maintenance. Therefore, procurement should be initiated in FY 1983 to satisfy that schedule.

Another significant activity which would be initiated in early FY 1983 is the procurement of "orbital replacement units". These units include the fine guidance sensors, batteries, rate gyro assemblies, and other critical components which are most likely to be replaced first. This procurement will provide limited replacement capability at launch with a buildup of units for the first required refurbishment scheduled for approximately 2 1/2 years after launch.

PHYSICS AND ASTRONOMY - AIRBORNE RESEARCH

Question: Your FY 1981 budget for Physics and Astronomy - Airborne Research was $4.5 million. Your FY 1982 budget contained a request for $5.7 million, which has now been adjusted in your Operating Plan to $4.2 million. For FY 1983, you are requesting $5.9 million. How do you explain this yoyo funding pattern for this research program?

What would be the effect of taking this program back to the FY 1982 operating base level?

Answer: The FY 1983 budget of $4.5 million supported 72 airborne research flights. The FY 1983 budget assumed a funding level of $5.7 million which was reduced to $4.2 million as a result of the general reduction in the appropriation request. The FY 1983 budget, therefore, assumes an increase to accommodate inflation as well as a modest increase in flight hours.

If the requested FY 1983 funding level is reduced, the number of hours of airborne research would have to be reduced significantly, particularly if the cost of fuel increases.

MATERIALS EXPERIMENT OPERATIONS

Question: In FY 1982, you requested $6.1 million for the Materials Experiment Operations program. In your FY 1982 Operating Plan, you reduced this amount to $3 million. This year in your FY 1983 budget submission, you are asking for $7.2 million. Have you explained such wide fluctuations in the funding requirements for this program?

Answer: The Materials Experiment Operations budget line funds the small hardware and supporting science for experiments on board the Shuttle as well as the use of ground-based short duration low gravity facilities. The slip in the schedule for Shuttle operations allowed a reduction in budgetary requirements in FY 1982. In FY 1983, however, we plan to enhance the level of funding for experiments to be carried out on the Shuttle. Thus, the budgetary requirements in FY 1983 reflect the projected increase in flight opportunities for materials processing in space.

INFORMATION SYSTEMS

Question: Your FY 1981 budget contained $4.5 million for the Information Systems program. Your FY 1982 request was for $10 million for this program. Your Operating Plan for FY 1982 shows a $5 million level. In FY 1983, you are requesting $7.5 million. How do you account for these wide fluctuations in funding requirements over this short period of time?

What specifically will be done in FY 1983 that was not done in FY 1982 and what costs are associated with these items?

Answer: A ten-year plan (initiated 1981) for developing the basic data system capabilities to support appplications missions assumed $10 million in FY 1982 and $15 million in FY 1983. These levels had to be reduced during the FY 1983 budget formulation process. The Information Systems program was then restructured to sustain the minimal research and development support needed to meet ongoing data management requirements.

The additional $2.5 million requested for FY 1983 will be allocated to the following activities:

$0.5 - Augmentation of a synthetic aperature radar computer to support SIR-B data processing requirements.

$0.5 - Development of detailed task definitions for electronic catalog to access planetary data.

$0.5 - Installation of common software algorithms at the Goddard Space Flight Center and Jet Propulsion Laboratory, and several universities to support analysis activities.

$0.5 - Implementation of an oceanographic computer to support NASA research using data from a defense meteorological satellite of data system concepts for the high-volume multispectral linear array instrument.

CANADIAN ARCTIC MAPPING

Question: The Canadian government recently proposed a joint satellite program to map the Arctic ice fields on a continuing basis, but the United States decided not to participate. Why did the United States take this position?

Answer: The Canadian government and NASA have been conducting a joint mission requirements study for a potential future satellite which would involve a synthetic aperture radar instrument as the primary sensor to map the Arctic ice fields and their continual changes. Among the scientific research tasks that would be addressed by such a mission is the understanding of the dynamics of the Arctic sea ice and the fluctuations in the ice margin. Science working groups are examining the usefulness of such a mission to the areas of oceanography, renewable resources and nonrenewable resources. The Canadian studies for this mission are in the conceptual design phase and the Canadian government is aggressively pursuing international cooperation. NASA is currently examining possible participation in this mission, but a decision has not yet been made.

EARTH RADIATION BUDGET EXPERIMENT (ERBE)

Question: Page AS-7 of your budget justification indicates that the Earth Radiation Budget Experiment is "currently under review". Could you please explain the type of review that is being undertaken, when the review will be completed, and the alternatives currently under consideration?

Answer: The Earth Radiation Budget Experiment (ERBE) needs concurrent data from the NASA dedicated mid-latitude Earth Radiation Budget Satellite (ERBS) for diurnal coverage, and at least one NOAA operational meteorology polar orbiting satellite for global coverage. Two of the satellites, NOAA F&G, will be equipped with ERBE instruments identical to the one to be carried on NASA's ERBS.

The specific launch dates of the NOAA satellites are the items referred to as being "currently under review" on page AS-7 of the NASA budget justification. Our understanding is that an open issue exists as to the specific NOAA polar orbiter program that will be utilized. For example, a single polar orbiting satellite rather than the currently planned two satellite system may be effected. Therefore, this change from the two planned satellites to one satellite will postpone the expected NOAA launch dates and affect the scheduling of the ERBE mission.

NASA is, however, continuing the ERBE development and fabrication on schedule and instruments will be delivered to NOAA in mid-1983. The Earth Radiation Budget Satellite will be launched by the Shuttle as soon as development is completed, which is currently scheduled for 1984. Since ERBS has a minimum of two years life expectancy, we believe that the necessary data overlap with the NOAA satellites can be realized.

LANDSAT-D

Question: Your budget justification states that NASA will support the National Oceanic and Atmospheric Administration in its new responsibility for managing the operation of the Landsat-D system. What specific activities will NASA undertake in FY 1983 in order to provide this support?

Has NASA and NOAA entered into an agreement of understanding defining the specific areas of support that NASA will provide and the extent to which such services will be reimbursed? If so, please provide this memorandum for the record.

Answer: During FY 1983, NASA plans to support NOAA in the management of Landsat-D operations by providing the following support services: Tracking and Data Relay Satellite System (TDRSS) services, orbit determination, tape archives, photo processing, and communications. In addition, NASA will manage and exercise technical overview for the completion of Landsat-D' and its subsequent storage.

NOAA and NASA have held discussions to produce a Memorandum of Understanding (MOU) which states the specific areas of support to NOAA. A copy of this MOU is included as Enclosure 1.

Question: Landsat-D development is proceeding with the launch of Landsat-D planned for 1982. Landsat-D will incorporate both the thematic mapper and the multispectral scanner. Landsat-D', the backup spacecraft, will be available for launch 12 to 15 months later. Have all the subsystems for Landsat-D been delivered by the contractor and tested?

Have all the subsystems for Landsat-D' been delivered to date?

(Continued on page 1147.)

MEMORANDUM OF UNDERSTANDING
BETWEEN
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)
AND
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (NOAA)
FOR THE TRANSITION OF LANDSAT-D/D'
OPERATIONS FROM NASA TO NOAA

I. BACKGROUND, AUTHORITY AND PURPOSE

A. The Office of Space Science and Applications (OSSA), NASA Headquarters, through the Goddard Space Flight Center (GSFC) is developing the Landsat-D/D' flight and ground systems, thus, continuing the Landsat Program of gathering remotely-sensed data on the earth's resources. These satellites will incorporate two sensors, a Multispectral Scanner (MSS) and a Thematic Mapper (TM). Landsat-D is planned to be launched in the third quarter of 1982. Following completion by NASA of the development, integration and checkout of Landsat-D', it will serve as a backup spacecraft in case Landsat-D should experience an early failure. If Landsat-D is operational when Landsat-D' is certified by NASA and NOAA as launch ready, Landsat-D' will be placed in storage for launch at a later date.

B. Presidential Directive PD/NSC-54, dated November 16, 1979, assigns to the National Oceanic and Atmospheric Administration (NOAA) of the Department of Commerce (DOC) the management responsibility for the civil operational land remote sensing activities, in addition to its ongoing atmospheric and oceanic sensing responsibilities. NOAA's goal is to transfer to the private sector responsibility for civil operational land remote sensing activities as soon as possible.

C. In June 1981, the Secretary of Commerce established a Program Board for civil land operational remote sensing to insure continuing federal coordination and regulation of the management and operation of a Civil Land Remote Sensing Satellite System.

D. In August 1981, the Secretary of Commerce, with the concurrence of the Administrator, GSA, established the Land Remote Sensing Satellite Advisory Committee to advise the Secretary on matters pertinent to the Department's responsibilities for the establishment and management of the Civil Operational Land Remote Sensing Satellite Program.

E. The purpose of this Memorandum of Understanding (MOU) is to delineate the relationships between NASA and NOAA that will define and control the joint and separate activities for achieving the transfer of Landsat-D/D' hardware and operation from NASA to NOAA and to formulate the transition schedule, management responsibilities, funding responsibilities, and mode of operation.

II. MANAGEMENT

A. Approval of this MOU and any amendments will be by the NASA/Associate Administrator for Space Science and Applications and the DOC/Assistant Administrator for Satellites, NOAA. In addition to this approval authority, both officials are responsible for the basic policies needed to control, direct, operate and revise, if necessary, the elements of the MOU.

B. The management of the functions of the NOAA portion of this agreement is the responsibility of the Deputy Assistant Administrator for Satellites, National Earth Satellite Service (NESS).

C. The management of the functions of the NASA portion of this agreement is the responsibility of the Director, Earth and Planetary Exploration Division, OSSA, NASA Headquarters.

D. A joint NASA/NOAA Transition Board is established under this MOU to manage implementation of the MOU and carry out the transition of Landsat management responsibility from NASA to NOAA. This Board will be co-chaired by the NASA Director, Earth and Planetary Exploration Division, and the NOAA Deputy Assistant Administrator for Satellites.

E. Standing committees may be formed to facilitate the work of the NASA/NOAA Transition Board. Guidelines governing the existence and function of such committees must be jointly approved by the co-chairs. The guidelines must include, as a minimum:

1. Work to be accomplished.
2. Composition, including chairmanship.
3. Reporting procedures.

Guidelines may be reviewed at the request of either co-chair and revised with agreement by both parties.

F. In the event that major problems develop which might significantly affect the ability of either NASA or NOAA to fulfill its commitments under this MOU, the affected agency shall immediately notify the other. Examples are funding problems, staffing problems, schedule slips, design changes, development problems, critical test failures, operational problems, data relay failure, etc.

III. RESPONSIBILITIES

A. NASA and NOAA have a mutual responsibility to achieve an orderly and timely transfer of the Landsat-D/D' flight and ground segments to NOAA.

B. NASA has the responsibility to develop and implement the flight and ground segments of the system and assist in NOAA's assumption of operations. Additionally, NASA will:

1. Launch and perform in-orbit checkout of Landsat-D.

2. Furnish NOAA with the NASA Post Launch Ground Segment Acceptance Plan for their review by April 1982.

3. Provide NOAA with flight and ground segment capabilities as specified in the NASA Landsat-D/D' Mission System Specifications and consistent with achievable technical objectives and funding limitations. NASA will provide to NOAA loan of the backup tape recorders located in Sweden, Australia, and Brazil until TDRSS is fully operational.

4. Provide technical assistance to NOAA as required and funded by NOAA in areas such as TDRSS services, orbit determination, DOMSAT communications, TM high density processed tape archive, TM/MSS quality control film processing, photo processing, TM computer compatible tape shipping, communications services required between the ground segment and the external interfaces and the physical plant.

5. Perform technical studies and provide consultation in response to NOAA requests utilizing NOAA funding.

6. Implement system enhancements and modifications requested and funded by NOAA.

7. Manage and provide technical oversight of Landsat-D' storage to be funded by NOAA.

8. Launch and perform in-orbit checkout of Landsat-D' (See paragraph V.A.2).

9. Checkout the Landsat-D/TDRSS communication link.

10. Inform NOAA and document details of spacecraft and ground segment operational performance and anomalies during the NASA operational checkout and TM R&D effort; and correct such anomalies consistent with practical and achievable technical objectives.

11. Interface with Foreign Ground Station Operators on the basis of NASA MOUs (as well as supplemental arrangements for foreign ground station backup tape recorder support) through the period until Landsat-D MSS is turned over to NOAA (approximately January 31, 1983) at which point it is understood that NASA MOU's with foreign ground stations will terminate.

12. Train NOAA supplied personnel in the operation and maintenance of the Landsat-D Ground System prior to turnover of MSS and TM operations.

C. NOAA has the responsibility to operate and maintain the system which is developed by NASA. Additionally, NOAA will:

1. Review the NASA Ground Segment Post Launch Acceptance Test Plan and participate in the tests.

2. Provide personnel to be trained by NASA for operating the ground system.

3. Establish and maintain the customer interface for data acquisition, data archive, and data distribution system via the Department of the Interior (DOI), EROS Data Center (EDC) or any other means.

4. Provide routine reporting to NASA of the Landsat-D/D' spacecraft operational performance.

5. Provide MSS data to the user community consistent with the priorities established with the advice of the Program Board and Land Remote Sensing Advisory Committee.

6. Interface with Foreign Ground Station Operators on the basis of NOAA-negotiated follow-on MOUs. These MOUs will take effect at the point of transfer of responsibility of Landsat-D MSS activities from NASA to NOAA.

7. Manage spacecraft data acquisition utilizing the ground acquisition network (domestic and foreign) and TDRSS when available to

satisfy customer requirements. NOAA will negotiate follow-on backup tape recorder arrangements with selected foreign ground stations to take effect when such NASA arrangements terminate and to continue until TDRSS is operational.

8. Establish the pricing structure for Landsat-D/D' MSS data products and foreign data acquisition fees. NOAA will reimburse NASA for a pro rata share of the $200K NASA annual fee from Foreign Ground Station Operators accrued before takeover of MSS operations.

9. Determine when Landsat-D' should replace Landsat-D following MSS turnover. Criteria for call up will be determined by the NASA/NOAA Transition Board and the decision will be made by the signatories of the MOU.

D. NASA has the responsibility for conducting the TM R&D effort; this activity is a phased development leading to a full TM capability by January 1985 (see Figure 1). To accomplish this effort:

1. NOAA will support NASA to complete the Thematic Mapper (TM) evaluation phase, TM research and development phase, and the TM initial capability phase. This includes: scheduling and acquiring specified TM acquisitions; associated payload correction data; provision of TM high density raw data tapes (HDT-R) and payload correction data tapes; access to Landsat-D technical library; access to logistics/spares subsystem plus miscellaneous support to carry out this effort.

2. NASA will use the EROS Data Center (EDC) for archiving TM film masters and CCTs. Data produced during the TM evaluation phase will be initially restricted to NASA R&D use. The NASA/NOAA Transition Board will establish when and under what conditions normal distribution can be initiated.

3. During the period before the assumption of TM operational responsibility by NOAA in January 1985, those TM data required by NASA for NASA-supported R&D purposes will be provided without charge. Prices charged others for TM data products during the TM R&D effort will be established by the NASA/NOAA Transition Board, subject to approval by higher authority.

IV. TRANSITION PLANS AND SCHEDULE

A. NASA will transfer to NOAA the management and operation of the Landsat-D spacecraft in accordance with the target schedule shown in Figure 1.

B. NASA will transfer to NOAA elements of the Landsat-D ground segment for MSS operations. The system will have processing capability of 200 scenes/day to archival tape as defined in the Landsat D/D' Mission System Specification and transfer will take place in accordance with the schedule shown in Figure 1. The elements to be transferred are the Control and Simulation Facility (CSF), Mission Management Facility (MMF), Transportable Ground Station (TGS), and MSS Image Processing System (MIPS) and supporting inventories.

C. NASA plans for acquisition of MSS data are given in Table 1a, and production for MSS in Table 1b. NASA plans for acquisition of TM data are given in Table 2a, and production for TM in Table 2b.

D. NOAA will provide support to NASA necessary to achieve the acquisition and production rates of Table 2.

E. NASA will transfer to NOAA elements of the Landsat-D ground segment required for TM data processing. The system will have a processing capability of 100 TM scenes per day to archival tape, as defined in the Landsat-D/D' System Specifications, and transfer will take place in accordance with the schedule shown in Figure 1. The elements to be transferred are the TM MMF and the Thematic Mapper Image Processing System (TIPS).

F. NASA will use the EROS Data Center (EDC) for archiving MSS high density tapes. Also, EDC will be responsible for distribution of MSS data prior to NOAA operations.

G. NASA will permit NOAA to use selected space in Building 28, Wing A, at GSFC which houses the CSF, MMF, MIPS, and TIPS, subject to reimbursement of certain items as stated in paragraph V.B.4. Space will be made available to NOAA in Building 28, Wing A, in three phases as follows:

1. Selected Building 28, Wing A, facility and office space will be made available to NOAA and their M&O contractor during the phase-in to NOAA management of MSS operation plus TM scheduling/acquisition responsibility (scheduled to begin October 1, 1982).

2. Selected space in Building 28 will be made available for NOAA's M&O contractor during phase-in for TM takeover (approximately October 1984).

3. Remaining space within Building 28, Wing A, will be made available to NOAA upon transition to NOAA management of the NASA TM operating system (scheduled for January 31, 1985).

V. FUNDING

A. NASA Funding Responsibilities:

1. NASA will fund the Landsat-D space and ground segment development, fabrication, integration, test, and launch activities.

2. NASA will fund fabrication, integration, and test of the Landsat-D' spacecraft and the Landsat-D' launch vehicle. NASA will fund the Landsat-D' launch and checkout if launch is required before January 1, 1984.

3. NASA will fund the Landsat-D operational costs through January 31, 1983, or six months after launch whichever is later.

4. NASA will fund TM data processing operations and associated ground system upgrades which are unique to the TM R&D effort.

5. NASA will reimburse NOAA for cloud cover predicts from the National Weather Service for the period prior to Landsat-D transition to NOAA.

6. NASA will reimburse NOAA for spares and logistics used during the TM R&D effort.

7. NASA will fund any studies or modifications to hardware or software needed to enable the ground system to function via TDRSS.

8. NASA will fund training of NOAA M&O personnel.

B. NOAA Funding Responsibilities:

1. NOAA will provide funds for Landsat-D' storage.

2. NOAA will provide funds for launch services if Landsat-D' is launched after January 1, 1984.

3. NOAA will fund the Landsat-D/D' operational costs beginning January 31, 1983, or six months after launch whichever is later.

4. As NOAA assumes Landsat-D/D' operational responsibility, NOAA will reimburse NASA for the related support costs such as:

- o GSFC Building 28 Plant Operations and Maintenance
- o Technical support
- o Network support
- o DOMSAT Service
- o Photo Suport Processing, Quality Assessment and Shipping
- o High Density and Computer Tape Supply (except tapes required for NASA's TM R&D
- o Tape Handling, Shipping and Storage
- o High Density Inventory Data Transmissions
- o Spacecraft Orbital Predicts, Orbital Analysis, Orbit Adjust and Manuever and Station Keeping

Other items may be added later by mutual agreements.

NASA will provide periodic reports to NOAA on such expenditures.

5. After NOAA operations begin, NOAA will fund any changes that enhance the operations and/or suitability of the ground segment except as noted in paragraph V.A.7.

C. Joint Responsibilities

1. Funding responsibilities for changes resulting from Landsat-D Flight Segment experiences that require modification of the Landsat-D' spacecraft will be recommended to the signatories of this MOU by the NASA/NOAA Transition Board.

2. NOAA will inform OMB of conditions beyond their control which would jeopardize the ability of NOAA to recover the cost of operating Landsat-D. NASA will support NOAA as required.

D. Budget Requests

1. NOAA will submit and defend annual requests for budget authority to operate the Landsat-D/-D'. NOAA will develop the plans and budget estimates with the assistance and support of NASA and other agencies. At the beginning of each fiscal year, or as soon thereafter as funds are received or appropriated, or as program changes require, NOAA will issue a reimbursement order to NASA for the full amount of funds required for NASA to execute its portion of the program during that fiscal year, in accordance with the jointly approved Project Plans or Operations Plans. NASA will provide appropriate budget estimates for all NASA activities chargeable to NOAA and provide mutually agreed-upon reports to NOAA regarding the planned and actual commitments, obligations, and expenditures of the funds transferred to NASA.

2. Since the funding plans are dependent upon appropriations, all funding agreements are contingent upon such appropriations. Because of these uncertainties and the mutual dependence of NASA on NOAA and vice versa, NASA and NOAA will exchange, as required, information on budget requests and operating plans including an assessment of those portions of the ongoing or planned program that may be significantly affected by the budget process.

E. TDRSS

TDRSS and DOMSAT cost for TM data during the TM R&D effort will be NASA's responsibility. TDRSS user fees for NOAA MSS operations are established outside this MOU.

F. Landsat-D Mission Termination or Shuttle Retrieval

When Landsat-D is removed from service, ownership will revert back to NASA. If the satellite is retrieved, NASA will perform analysis of refurbishment needs and costs.

VI. RELEASE OF PUBLIC INFORMATION

Release of public information on the Landsat-D program may be initiated by either party within the general constraints that:

1. All releases should identify the program.

2. Releases can be made regarding activities specifically assigned to and funded by NASA without NOAA concurrence or approval.

3. Releases can be made regarding activities specifically assigned to and funded by NOAA without NASA concurrence or approval.

4. Releases regarding joint activities will be exchanged for mutual approval prior to release.

VII. EFFECTIVE DATE

This MOU will be effective on the date of the last signature on this document.

VIII. TERMINATION

This agreement lapses after NOAA assumes total operational responsibility for Landsat-D and D' and after agreements are reached for any and all continuing support between the two organizations. This is projected to be January 1985.

John H McElroy
Dr. John H. McElroy
Assistant Administrator
for Satellites

4/29/82
Date

B I Edelson
Dr. Burton I. Edelson
Associate Administrator
for Space Science and
Applications

6/21/82
Date

FIGURE 1
NASA/NOAA PHASEIN FOR LS-D

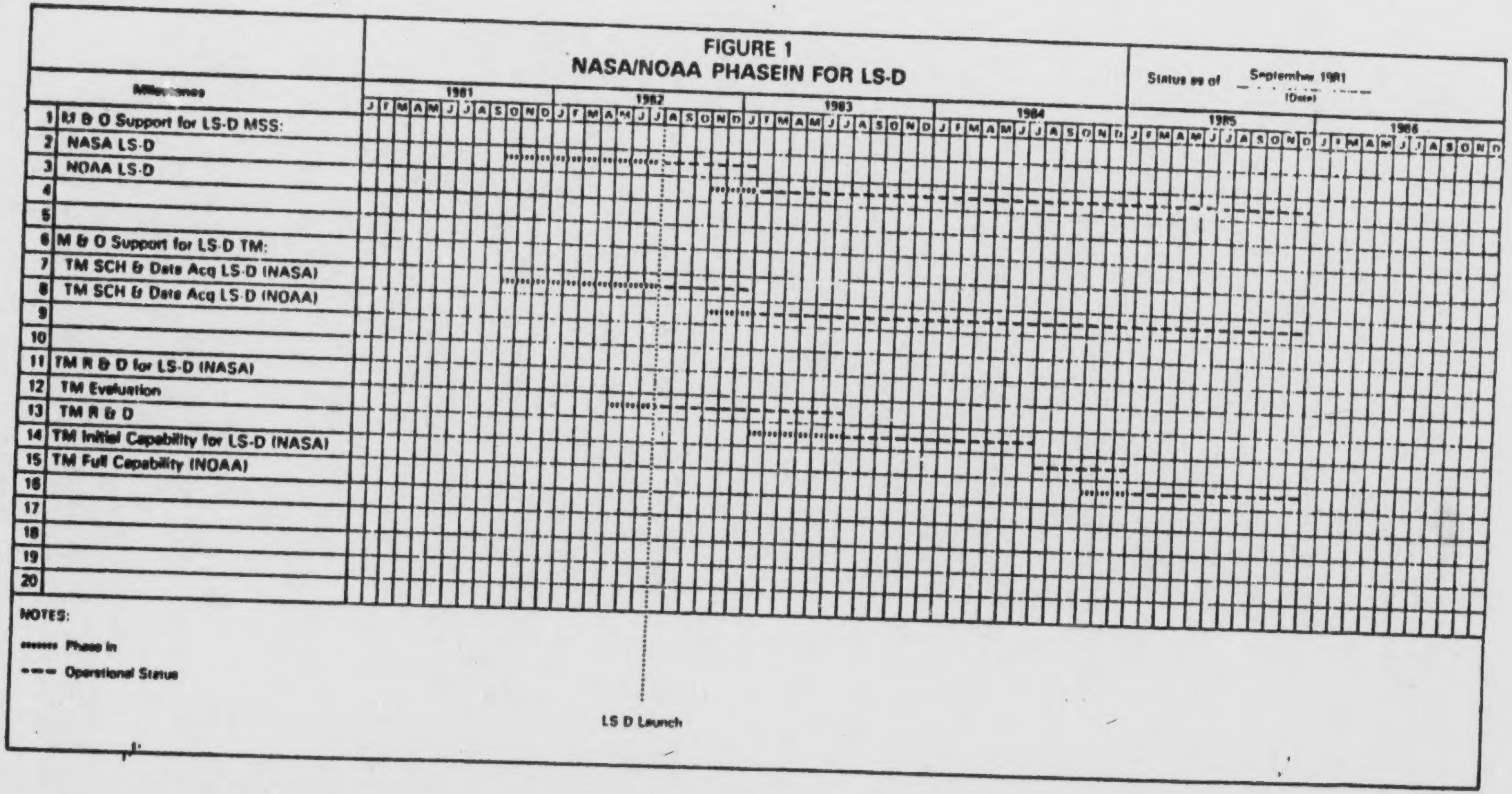


Table 1a Acquisition Plans for MSS Data

PRODUCT	PERIOD	
	7/31/82 to 8/31/82	9/01/82 to 1/31/83
Scenes Per Day to High Density Tape	89	89 (except for demonstration periods up to 200)

Table 1b Production Plans for MSS Data

PRODUCT	PERIOD	
	7/31/82 to 8/31/82	9/01/82 to 1/31/83
Scenes Per Day Processed to Partially Processed High Density Tape	89	89 (except for demonstration periods up to 200)

Table 2a Acquisition Plans for TM Data

PRODUCT	PERIOD		
	7/31/82 to 7/31/83	7/31/83 to 9/03/83	9/03/83* to 1/31/85
Scenes Per Day to High Density Tape	30	30	50 (except for demonstration periods up to 100)

Note: *Subject to completion of TDRS - A phase in

Table 2b Production Plans for TM Data

Product	Period			
	7/31/82 to 7/31/83	7/31/83 to 1/01/85	12/01/84 to 1/31/85	
	Scenes Per Day* 1	Scenes Per Day* 1	Routine (Scenes Per Day* 1)	Demonstration Periods (Scenes Per Day* 2)
• Partially Processed High Density Tape	–	12	12	100
• Fully Processed High Density Tape	–	12	12	50
• FILM	1	12	12	50
• CCT	1	2	2	10

Notes: *1 Five day work week
*2 Seven day work week

What progress have you made on the Landsat-D ground segment development and the Thematic Mapper processing system?

Answer: All subsystems for Landsat-D have been delivered, integrated, and tested. In addition, all subsystems for Landsat-D' have been delivered with the exception of the second Thematic Mapper. The delivery of this instrument is scheduled for October 1982.

The Landsat-D ground segment development is nearing completion in readiness for the launch in July 1982. The Thematic Mapper production processing system is on schedule for mid-1983, 12 scenes per day, processing capability. Prior to mid-1983, NASA will have the capability to process one Thematic Mapper scene per day using various elements of available data processing hardware and software.

Question: Your budget justification indicates that the Thematic Mapper research and development data production rate will be approximately one scene per day at the time of launch. You state that by mid-1983 a production rate of 12 scenes per day is anticipated and that by 1985, 150 scenes per day will be processed. What are the major technological problems remaining in the development of the 50 scenes per day ground processing system?

What could be done to accelerate the initial processing stages during the first year or two after launch?

Answer: The major technological problem remaining in the development of a 50 scenes per day ground processing system is flight data from the new Thematic Mapper sensor to prove out the correction algorithms and software. An increase to 50 scenes per day would be possible during FY 1984 if additional shifts were added to increase the throughput of the Thematic Mapper data processing system.

PLANETARY EXPLORATION

Question: Although your research and development budget plan for the Space Science and Applications program shows an increase of $100.5 million over the FY 1982 current plan--or 11 percent, a more detailed analysis of the components of that program show some rather large winners and losers.

For instance, the Planetary Exploration program was funded at a level of $175.6 million in FY 1981, $205 million in FY 1982, while the FY 1983 request is for $154.6 million. The FY 1982 to FY 1983 decrease represents a reduction of almost 25 percent. Where will the major decreases be taken in this program area?

Answer: Approximately $27 million reduction is due to the normal development program decrease for Galileo ($120 million in FY 1982 down to $92.6 million in FY 1983), a reduction of approximately $11 million in research and analysis, and approximately $12 million in mission operations and data analysis.

Question: The Mission Operations and Data Analysis line item shows a decrease from $45.8 million in your FY 1983 budget submission to $26.5 million in your FY 1983 request. Where will these reductions be absorbed?

Answer: Within funds requested, NASA is considering scaling back or eliminating support for some lower priority projects, e.g., older spacecraft. Planetary flight support will be reduced from approximately $21 million to $12.5 million. This can be accommodated by deleting some planned upgrading of JPL equiment.

Question: Your Research and Analysis activities show a decrease from $51.5 million in your FY 1982 request to $35.5 million in FY 1983. In what program areas will these reductions occur?

Answer: This reduction was taken generally across the research and analysis efforts, e.g., planetary atmosphere and geochemistry.

Question: On page RD 5-4 of your budget justification, you indicate that NASA is pursuing the development of a long term strategy for future low cost exploration of the solar system. You state that such a strategy will include missions to characterize the surface of Venus, to undertake initial missions to comets and asteroids, to further the exploration of Mars, and to continue the exploration of the outer planets and their moons. In order to accomplish this within a tighter budget framework, you state that new approaches to spacecraft development and to mission operations are being examined. Could you please explain some of the approaches that are being considered and some of the cost savings that are likely to be realized as a result of these approaches?

Who is currently involved in the development and study of these new approaches?

Do you intend to increase the scientific participation in this review in order to assure that the scientific integrity of the missions are maintained?

Answer: A simple spacecraft design which could be employed for several missions could be one way of reducing costs, as a new spacecraft would not need to be redesigned for each respective mission; only the instruments would be new. In addition, use of similar spacecraft could result in some consolidation of mission operations planning and support, thus reducing manpower requirements.

NASA Headquarters, JPL, and some aerospace contractors are involved in the development and study of these new approaches.

We always seek the science community's support and advice on prioritization of missions. Close communications are being maintained with the Space Science Board and briefings are being provided to the larger organizations representing the planetary sciences community.

Question: I notice in your budget justification that as far as the Venus Orbiting Imaging Radar is concerned, there are no funds in your FY 1983 request for development. Does this imply that no research is currently underway relative to such a mission?

Answer: Definition is currently underway on a Venus Mapper Mission which would utilize synthetic aperature radar to map Venus as did the original VOIR mission. However, the Venus Mapper Mission will probably utilize a much less expensive spacecraft. The mission promises to achieve most of the VOIR objectives.

Question: In FY 1981 your budget for Planetary Exploration--Mission Operations and Data Analysis was $61.8 million. In FY 1982, you requested $45.8 million for this program and later adjusted the level to $38.3 million in your Operating Plan. For FY 1983 you are requesting $26.5 million. How do you account for this rather sharp decline over the last two years in Mission Operations and Data Analysis?

What would be the status of your data analysis on the Viking Mars program?

Answer: Voyager basic mission operations were completed, which accounted for a reduction of approximately $10 million from FY 1981 through FY 1982, and planetary flight support efforts in support of the Voyager operations was phased down. The FY 1983 funding was reduced in support of the Administration's Economic Recovery program which will require some program adjustments in order to continue our higher priority efforts. For example, the funding requested may require reducing the planned upgrading of the mission operations hardware at JPL.

The Mars Data Analysis program is continuing in FY 1982 at a level of approximately $3.0 million. However, the FY 1983 budget may require some modification in this effort.

Question: Your budget justification indicates that the Mars data analysis effort "continue to assure that we capitalize on the wealth of data provided by Viking". Do you believe that there is additional information that can be gleaned from the Viking data in FY 1983?

What would be the funding levels for the Pioneer-Venus and Pioneer-10 and 11 spacecrafts during FY 1983?

Under your current budget proposal, when will these spacecraft activities be terminated?

Answer: I am not sure that we are ever able to analyze any data to its maximum potential, and the Viking data set does contain an abundant amount of information which could be analyzed. Therefore, it is our intention to continue to study these data by supporting such investigations under our research and analysis discipline effects.

The funding levels which would be required for Pioneer Venus and Pioneer 6-11 in FY 1983 are $5.5 million and $2.0 million, respectively.

We are continuing to investigate funding alternatives to continue these operations at some level.

Question: It appears that from your description that the statement on page AS-6 of your budget which lists as one of the directives of the Space Science program, the exploitation of the "knowledge gained from current and completed program efforts by thorough analysis and interpretation of the scientific data obtained" will not exactly be carried out. What did you request for your research and analysis activities from OMB?

Answer: The NASA FY 1983 budget request to OMB included the following research and analysis funding levels:

- Physics and Astronomy	$49.2 million
- Planetary	$59.7 million
- Life Sciences	$33.7 million

UPPER ATMOSPHERIC RESEARCH SATELLITE EXPERIMENTS

Question: Your budget justification states that detailed definition studies of 16 instruments for the Upper Atmospheric Research Satellite Experiments have been completed and a final determination has been made to proceed with the development of nine of these instruments. Please list the 16 instruments that have been studied and indicate the rationale for selecting the nine that were chosen for development.

Answer: A list of the 16 instruments that were studied for the Upper Atmosphere Research Satellite (UARS) is included. The 9 that were selected are identified by an asterisk (*). Of the 16 instruments, 4 were infrared limb scanning devices that were designed to make similar measurements. The 2 infrared limb scanning devices which were selected were believed to offer the best approach to those measurements. Of the other 7 instruments selected, the particle environment monitor (for studying energy input from particles), the high resolution Doppler Imager (for stratospheric wind studies), the microwave limb sounder (for detecting chlorine oxide), HALOE (for high sensitivity hydrogen chloride and hydrogen flouride measurements), and the French instrument (for high altitude winds) are all unique investigations addressing critical UARS objectives as defined in the Announcement of Opportunity. Two solar ultraviolet instruments have been selected rather than only one because the calibration techniques of the two are very different. In the constrained funding environment, a decision was made to emphasize the stratosphere and lower mesosphere measurements. The Carlson investigation was technically sound, but showed great growth in cost and complexity during definition and addressed a relatively low priority area for UARS, as the mission was originally defined. The Gille and Gille/Russell investigations were the losers among the deliberately overselected infrared investigations for the reasons cited above.

UARS INVESTIGATIONS STUDIED AND SELECTED FOR DEVELOPMENT

* 1. "A Solar Ultraviolet Spectral Irradiance Monitor Onboard USARS Missions" G. E. Brueckner, Naval Research Laboratory (Solar UV Energy Input).

* 2. "An Ultraviolet Solar Spectral Irradiance Experiment for the UARS Program," G. J. Rottman, University of Colorado (Solar UV Energy Input).

3. "Advanced Limb Scanner for UARS Missions", J. C. Gille, NCAR, and J. M. Russell, III NASA Langley Research Center (Trace Species Measurements with IR techniques).

4. "Cryogenic Upper Atmosphere Limb Emission Radiometer," J. C. Gille, NCAR (Trace Species Measurements with IR).

* 5. "Altitude Distribution of Atmospheric Minor Species and Temperature," A. E. Roche, Lockheed Research Laboratory (Trace Species Measurements with IR).

* 6. "Improved Stratospheric and Mesospheric Sounder," F. W. Taylor, Oxford University, United Kingdom (Trace Species Measurements with IR).

* 7. "Microwave Limb Sounding," J. W. Waters, Jet Propulsion Laboratory (Species Measurements with Microwave Techniques).

* 8. "Halogen Occulation Experiment (HALOE) for UARS." J. M. Russell, III, NASA Langley Research Center (Solar Occulation, Gas Cell Correlation Measurements of HCl, HF, and other species).

9. "An Ultraviolet Ozone Spectrometer for the UARS," G. M. Mount, University of Colorado (Stratospheric and Measopheric Ozone, Mesospheric NO Concentrations).

10. "High Resolution Global Measurements of Atmospheric Ozone from the UARS," R. W. Carlson, Jet Propulsion Laboratory (High Spatial Resolution O_3 Measurements).

11. "Ultraviolet Imaging Spectrometer for UARS," D. G. Torr, Utah State University (Species Concentration Measurements with UV Techniques).

*12. "Particle Environment Monitor," J. D. Winningham, Southwest Research Institute, (Energetic Particle Energy Input).

*13. "Temperature and Wind Measurements in the Mesosphere and Lower Thermosphere," G. Thullier, Service d'Aeronomie du CNRS, France.

*14. "High Resolution Doppler Imager," P. B. Hays, University of Michigan (Wind Measurements in the Stratosphere and Mesosphere).

15. "Ion Convection Electrodynamics for the UARS," R. A. Heelis, University of Texas at Dallas (Energy Input through High Altitude Electric Fields).

16. "A Magnetometer Experiment for the UARS Program," T. A. Potemra, Johns Hopkins Applied Physics Laboratory (Energy Input through High Altitude Magnetic Fields).

CHLOROFLUOROCARBONS

Question: In describing your Upper Atmospheric Research Satellite Experiments, you state that these experiments will provide the first full data set on stratospheric composition and dynamics. You further note that this information will be needed when very difficult regulatory decisions must be made on future production of chlorofluorocarbons. When will this system be put in place? When will the data first be available?

Do you currently have an interagency working group established with EPA to assure that this data is compatible with their regulatory needs?

Answer: The Upper Atmosphere Research Satellite (UARS) is being considered as a potential new initiative in FY 1984, and if it is initiated at that time, it could be launched in FY 1988. Quick-look data should be available within days (or at most weeks) after the instruments are turned on because an integrated interactive data system with data reduction algorithms which would be in place before the actual launch would be a principal element of our UARS plan. The intent of NASA would be to get the data out as quickly as possible the scientific community.

As required by the Clean Air Act, NASA reports to the Administrator of the Environmental Protection Agency every two years on the state of knowledge of the stratosphere including knowledge gained from satellites. NASA also is a participant of the Interagency Committee for Stratospheric Ozone Protection (ICSOP) chaired by the EPA Assistant Administrator for Research and Development, which is the official interagency coordination group for addressing the stratospheric ozone problem.

SOIL MOISTURE MEASUREMENT

Question: Your budget justification states that major questions regarding the ability to remotely measure soil moisture have been positively answered. What remains to be done to make such soil measurements available in a suitable form to users?

What plans does NASA have to develop a system for soil moisture measurement that has the potential of becoming operational?

Answer: NASA's research in the remote sensing of surface soil moisture is developing techniques which will account for the effects of soil type and texture, surface roughness and vegetation, and relate these surface measurements to a soil moisture profile.

We plan to acquire a crop season-time data set by using aircraft to acquire data which may prove the utility of direct soil measurements and to validate the algorithms that have been developed for crop productivity and rainfall runoff applications. We also plan to define the requirements for a space system which would extend the testing to more varied conditions over longer periods of time. Initial testing of a space system is scheduled for July 1984 using the Shuttle Imaging Radar. Ultimately, space platform or free-flying satellites will be needed for the longer duration measurements and are being considered for the early 1990's. A satellite system, which would be developed for research purposes, could also potentially be utilized for operational applications similar to the way in which the Landsat system has evolved.

OPERATIONAL SATELLITE IMPROVEMENT PROGRAM

Question: Your FY 1982 plan for the Operational Satellite Improvement Program calls for $6 million. Your FY 1983 request is also for $6 million. In describing the basis of your FY 1983 request, you state that it is "structured to continue NASA's phaseout of this activity". Why are you requesting the same amount in FY 1983 as you did in FY 1982 if you are indeed, "phasing out" this activity?

What is the expected FY 1984 level for this program?

What factors were considered in determining that this program should be phased out?

Answer: In the deliberations associated with the generation of the FY 1983 budget, NASA reassessed its role and responsibility in support of an operational system that is funded and managed by NOAA. The NOAA program is composed primarily of industry state-of-the-art spacecraft, sensor, and ground system designs that do not require the support of NASA research and development efforts. Therefore, it was determined that NOAA should fund the basic implementation of an operational system based on defined requirements of users. There would, however, be a distinct Governmental benefit if the institutional expertise in NASA was utilized to convert the user requirements into space system specifications and manage the procurement and deployment of these systems. Under this arrangement, NOAA would continue to fund an operational system by reimbursing NASA for space system procurement, and NASA would fund the development of advanced techniques in space-borne instrumentation and data analysis. Therefore, when instrument developments are determined to be of operational importance, we will work with NOAA to transition this capability into their system.

In order to provide an appropriate transition period, NASA has budgeted for the completion of some developmental instruments and system improvements that were already in process, and deleted some activities of a more long-term nature. Therefore, the FY 1983 budget level for these efforts is being retained at the FY 1982 budget amendment level which is lower than was originally envisioned for this program in FY 1983.

The FY 1984 budget level has not yet been determined, but our current plan assumes that the program will be phased out in FY 1984 at a level of approximately $600,000.

HIGH SPEED VECTOR PROCESSOR

Question: On page RD 7-38 of your budget justification you note that an advanced high speed vector processor will be delivered in FY 1983 in order to improve the system for developing more realistic numerical weather prediction models and for other purposes. What is the expected cost of this system?

When was a commitment made to proceed with the procurement of this system?

Please cite the page number in your FY 1982 budget justification that makes reference to the procurement of this system.

Answer: The estimated cost of the High Speed Vector Processor is approximately $31 million.

A commitment to proceed with the procurement of this system was made in 1981. Reference to the High Speed Vector Processor is made on page RD 7-38 of the FY 1982 NASA budget estimates on line six of the first paragraph. The computer now called High Speed Vector Processor is referred to as "an advanced vector processor" in the referenced budget justification.

ACID RAIN

Question: For FY 1983 you are requesting $128.9 million for your Environmental Observations program. To what extent will this program be of value in detecting the circulation and fate of nitrous oxide and sulphur oxide clouds associated with acid rain?

Answer: NASA's Environmetal Observation program includes a tropospheric chemistry element that is directed, in part, toward the study of the atmospheric sulfur and nitrogen cycles. Sources and sinks, chemical transformations, and trace gas intermediate species are studied with the objective of developing a sound data base for development of future space systems to monitor and study the troposphere on regional to global scales. These studies contribute data that help to understand sources and sinks and atmospheric processes that are very important to the acid rain question.

AgRISTARS

Question: What do you think will be the future of the AgRISTARS?

How much will NOAA and the Department of Agriculture contribute to this program in FY 1982 and FY 1983?

What gives you confidence that the Department of Agriculture will pick up the pilot testing activity terminated by NASA?

Answer: The NASA AgRISTARS program now emphasizes the research and development necessary to identify and validate basic techniques for extracting useful information from remotely sensed data to inventory vegetation types and assess their condition. The FY 1983 budget for AgRISTARS assumes that the large scale testing and operational capability for these techniques will be funded by the Department of Agriculture.

Future NASA involvement in the AgRISTARS program will depend on the ability of the different agencies to adopt the techniques developed by NASA.

The Department of Agriculture budgeted $12.5 million in FY 1982, and $12.9 million in FY 1983 for the AgRISTARS program; NOAA has budgeted $3.1 million in FY 1983. When the AgRISTARS program was initiated, each participating agency agreed to budget for its respective portion of the program. Since NASA has the capability and expertise in the development and initial testing of new remote sensing techniques, most of the early AgRISTARS program was funded by NASA. Our current planning assumes that the Department of Agriculture will conduct most of the large scale testing of the basic techniques developed by NASA.

30/20 GHz COMMUNICATIONS

Question: Applications are currently on file that would, by the mid-1980's exhaust our capacity to process data in lower frequency bands for all of the satellites located above the Equator in view of the United States. Capacity increased beyond the mid-1980's will require systems using new technology advances that function most efficiently in higher frequency bands. As a part of that effort, NASA has undertaken the study of a 30/20 GHz frequency band system. What activities are currently underway in foreign countries relative to the 30/20 program?

Although your FY 1982 request for this program was $15.4 million, your Operating Plan only contains $10 million. Furthermore, your request for FY 1983 is only $5.1 million. This represents a decrease of over 67 percent in this program. What will you be able to accomplish with these reduced funds?

I understand you are currently considering a scaled down demonstration version of the technology for the 30/20 program. Could you please describe your efforts in this area, how they differ from the program as originally conceived, and the total expected costs of such a program if it were implemented?

Your budget justification indicates that the reduction from your FY 1982 level is in line with a policy decision that such demonstrations of new technology are "more appropriately funded by the private sector". Was this policy decision made by NASA or OMB?

What indication do you have that industry is prepared to assume responsibility for this demonstration?

Answer: Brazil, Columbia, and Mexico each have proposed communication satellite systems, and other countries in this hemisphere have similar plans. The 30/20 GHz segment of the programs in Japan and Europe have been strengthened, with Japan scheduled to launch a first operational 30/20 GHz satellite (CS-2) in 1983 and they are now planning to add an advanced, third generation system in 1988. Italy plans to launch an operational 30/20 GHz satellite in 1985 (ITALSAT).

We will be able to complete most of our proof-of-concept technology development efforts.

NASA is currently redefining the structure of its communications program. No firm program plan has yet been established.

TECHNOLOGY TRANSFER

Question: In the FY 1982 appropriations process, the Congress directed NASA to continue its Technology Transfer program and you have earmarked $5 million in your FY 1982 Operating Plan for that purpose. For FY 1983, you are not requesting funds for the continuation of the Technology Transfer program. Your budget justification states that the functions performed by this program are being discontinued at the end of FY 1982 based on the "decision to allow the private sector to assume these efforts". Who made this "decision"? Did you request any funding for the continuation of this program in your request to OMB?

Answer: NASA's FY 1983 budget request to OMB included $7.3 million for the Technology Transfer program. However, during the budget deliberations that followed, within the overall context of necesary budget constraints, it became clear that some difficult decisions needed to be made in this program area.

Question: Your Operating Plan for FY 1982 earmarks $5 million for your Technology Transfer program. The Congress, in passing your FY 1982 budget, provided these funds, although none were requested. Your FY 1983 budget request contains no funds for Technology Transfer. Did you request any funds for this program in your OMB submission?

Your budget justification indicates that no funds were being requested due to the decision that these efforts could be "transferred to the private sector". What evidence do you have that private sector firms are willing to assume this responsibility?

Answer: NASA requested $7.3 million for the Technology Transfer program in the FY 1983 budget proposals to OMB. The decision to eliminate NASA's Technology Transfer role was made within the context of the President's Economic Recovery program, which requires substantial reductions in planned Government expenditures. The Technology Transfer program was considered to be assumable by the segments of the private sector which receive direct benefit from remotely sensed data. It is difficult for NASA to determine which Technology Transfer efforts will be picked up by the private sector; however, in the past, the private sector has always shown intersection technology efforts which could be of direct benefit to their respective company or industry.

TECHNOLOGY UTILIZATION

Question: In your opening statement, you note that you are studying the possibility of converting **NASA Tech Briefs** and other publications to a paid subscription basis. Could you please expand on this for the record?

What specific cost schedules are under consideration and when could such a program be initiated?

Answer: NASA plans to conduct a study to determine the overall impact of converting the **NASA Tech Briefs** to paid subscription. Impacts on technology transfer objectives will be weighed against cost recovery goals to determine the most cost effective means for providing continuing communication of new aerospace technologies to users in the U.S. industrial community. Sample surveys of the current **Tech Brief** users are planned to indicate retention levels of subscribers at varying annual subscription rates. Subscription rates currently under consideration range from $5-$20 per year. Should a decision be made to convert to paid subscription, annual rates would be set at a low enough level so as not to prohibit access to these technologies by entrepeneurs and small business firms. The target date for such a conversion is January 1, 1983.

Question: Your FY 1982 request for the the Technology Utilization program was $4.6 million. Your FY 1982 Operating Plan reflects a level of $8 million. The increase of $3.4 million is the result of direction by the Congress. Your budget justification states that these additional funds are to be used to enhance technology dissemination efforts and to increase efforts to encourage commercialization of aerospace applications by U.S. industry. Could you please explain what specific activities NASA in undertaking in order to accomplish these objectives?

Answer: The additional $3.4 million in FY 1982 is being used to operate the NASA-sponsored dissemination centers at a more effective level; to carry out several high priority application projects in the public sector such as Programmable Implantable Medication System, Automatic Implantable Defibrillator, Hydrocephalus Shunt, etc.; and to initiate feasibility studies to demonstrate applicability of NASA technology to various areas of the public sector.

TECHNOLOGY DISSEMINATION

Question: During FY 1982, you are analyzing the benefits and the economic impact of your Technology Dissemination program. One of the purposes of this analysis is to determine what changes might be made within the program to make it more effective. In FY 1983, however, you expect that program evaluation and benefit analysis will be phased out. How much was included in FY 1982 to perform these analyses? Why have you decided to phase out this element of your program?

Answer: In FY 1982, approximately $600,000 is planned for program evaluation and benefits analysis, as well as policy and economic studies. However, NASA plans to phaseout this activity in FY 1983 in order to maintain adequate and effective mechanisms for transferring aerospace technology to U.S. industry through its publications program and technology dissemination center activities. To do otherwise would tend to diminish those program elements which support direct transfer mechanisms and interface with industrial users of aerospace technology.

Question: What is the expected cost of your dissemination center activity in FY 1982 and FY 1983?

What has been your income from those activities in FY 1982 and FY 1983?

Do you believe that it would be possible to make the dissemination center a self-supporting activity through increased user fees?

Answer: The NASA portion of the funding planned for the dissemination center activities is $2.8 million in FY 1982 and $2.2 million in FY 1983. The industrial income from these activities which includes several Industrial Applications Centers, two State Technology Applications Centers, and the Computer Software Management and Information Center has been approximately $2.2 million in the first half of FY 1982. This is compared to $4.8 million in FY 1981. Industrial income information is not yet available for FY 1983.

SOLAR ELECTRIC PROPULSION

Question: In describing your Space Research and Technology program, you state that in FY 1983 activities will focus on maintaining a strong research and technology base in a variety of areas. One of the areas that you mention is electronic propulsion. Is this the Solar Electric Propulsion System (SEPS)?

How much money will be devoted to this activity during FY 1983?

What specific objectives have you established for the program during FY 1983?

Answer: During the past few years, work on Phase B of the Solar Electric Propulsion System (SEPS) development was being pursued by the Marshall Space Flight Center under the management of the NASA Office of Space Transportation Systems. Last fall, this effort was terminated as a result of changing Agency priorities that deemphasized the planetary missions for which SEPS was being developed. In the Office of Aeronautics and Space Technology, there is a Research and Technology Base program in electric propulsion which covers, among other items, research on the electron bombardment ion thruster. This is the generic technology which SEPS utilized. In FY 1983, we plan to devote $1.6 million to this work. During FY 1983, we have several specific targets which include doubling the thrust-to-power ratio to 20 millipounds per kilowatt, completing the performance documentation on an inert gas laboratory thruster, and quantifying the on-orbit and orbital-transfer propulsion technology options for large space structures.

HIGH SPEED ANALYTICAL PROCESSOR

Answer: This year you are requesting $6.4 million for the purchase of a high speed analytical processor for use at the Lewis Research Center. What additional capability will be provided by this processor?

What relationship, if any, would this processor have to the proposed Numerical Aerodynamic Simulator?

Answer: The proposed acquisition of a commercially available large-scale, high-speed analytical processor will enhance the presently limited computational capabilities of the Lewis Research Center by about a factor of ten. The acquisition of a high-speed analytical processor is consistent with the long standing computer upgrade plans for the Lewis Research Center. This advanced capability is required to support the computational research in aeronautical propulsion systems for all classes of aircraft. This new processor has no direct relationship to the proposed Numerical Aerodynamic Simulator to be located at the Ames Research Center. However, the Lewis Research Center equipment could be used to conduct pre- and post-processing for the Numerical Aerodynamic Simulator.

AERONAUTICS TERMINAL CONFIGURED VEHICLE PROGRAM

Question: One of the programs to be discontinued in FY 1983 is your Terminal Configured Vehicle program. This program was designed to, among other things, increase air traffic flow capacity and improve operational capability in adverse weather. Are the activities that were underway during FY 1982 in this program area completed?

Why does the Administration wish to discontinue this program in FY 1983?

What was your request to OMB for this program for FY 1983?

Answer: Not all the objectives of the Terminal Configured Vehicle Systems Technology program now underway will be achieved by the end of FY 1982. NASA is planning to continue a level-of-effort research activity in FY 1983 which supports needed research in airplane systems that interface with other elements of the national airspace system.

The Federal Aviation Administration (FAA) has recently identified a number of activities in which NASA's expertise and facilities are required and has requested help from NASA to carry out those activities important to implementation of the FAA's recently published, comprehensive twenty-year plan for updating and modernizing the national airspace system. This listing includes research on airplane systems that interface with the air traffic control system. The Terminal Configured Vehicle program remains the focus for many cooperative activities with the FAA which are aimed at making the aircraft perform more efficiently in flight, increasing traffic flow capacity and improving operational capability in adverse weather. The NASA recommendation to OMB for this program for FY 1983 was $7.6 million.

AERONAUTICS RESEARCH AND TECHNOLOGY - DOD

Question: Your budget justification states that the system technology portion of the Aeronautics Research and Technology program will contain only the high speed and low speed budget categories. These efforts have a strong direct interdependence with national aeronautics and research programs of the Department of Defense and will, beginning in FY 1983, be "the only focused system technology activities within the Aeronautics Research and Technology program." Was this a decision arrived at by NASA? By the civilian aeronautics industry? By the academic community? By the Department of Defense? By OMB?

Answer: This decision was made by NASA with OMB concurrence in recognition of the fact that DOD has traditionally and would continue to derive significant benefit from the programs to be supported under these budget categories. However, neither the DOD, the civilian aeronautics industry, nor the academic community was involved in the decision-making process, although their views of program priorities as expressed throughout the year were taken into consideration.

GENERAL AVIATION AND TRANSPORT RESEARCH

Question: In FY 1983 you are not requesting any funds in your Research and Technology Base for general aviation and commuter research and technology or for your transportation research and technology programs. Your FY 1982 Operating Plan contains $7.7 million and $8.1 million respectively for these programs. Will these programs be conducted, in whole or in part, and where within NASA?

At what levels will these functions continue and what program activities will not be undertaken that would have been conducted under your OMB submission?

Answer: These efforts will be conducted within the Aeronautics Research and Technology Base program in FY 1983.

The General Aviation/Commuter Aircraft efforts total $6.5 million in FY 1983. The program will be carried out under the propulsion, materials and structures, aerodynamics and human factors elements of the Disciplinary Research program. Activities which will be reduced or terminated in FY 1983 include focused efforts in crashworthiness, composites, aerial applications, and advanced avionics.

The Transport Research and Technology effort will continue in FY 1983 at essentially the same level as in FY 1982. The program will be implemented under the materials and structures and aircraft controls and guidance elements of the Disciplinary Research program.

AERONAUTICS SAFETY RESEARCH

Question: Your budget justification indicates that critical safety research previously conducted under transportation research and technology will now be conducted as an integral part of the aircraft controls and guidance research and technology program. At what level were these programs supported in FY 1982 and at what level will they be supported in FY 1983?

Your budget justification also states that single pilot cockpit display technology, which was previously conducted under general aviation, research and technology, will now be conducted as an integral part of your human factors research and technology program. How much was provided in FY 1982 for this program and how much will be provided in FY 1983?

Has there been a major change in focus in this program?

Answer: The transport safety research carried under the Aircraft Controls and Guidance program was funded at a level of $2.3 million in FY 1983. The remaining part of the FY 1983 transport safety research effort will be funded at a level of approximately $5.0 million under the Materials and Structures Program.

The single pilot research, which was carried on in FY 1982 under General Aviation at a level of $400,000 will be carried out as part of the Human Factors Research and Technology program in FY 1983. The scope of this program in FY 1983 will be approximately the same as the effort in FY 1982.

NUMERICAL AERODYNAMIC SIMULATOR

Question: In describing your Aeronautics Research and Technology program, you note that studies will continue on the Numerical Aerondynamic Simulator system. How much have you included in your FY 1983 budget for these studies?

Please provide for the record a list of the major milestones and their associated dates for this program.

Answer: Proposals for the Numerical Aerodynamic Simulator (NAS) submitted by the Burroughs Corporation and the Control Data Corporation for final system development are currently being evaluated by a NASA Source Evaluation Board (SEB) and by an independent Technical Review Board. The reports of these two evaluation committees are expected to be completed in mid-summer 1982 and, depending on the outcome, could have a major impact on the approach to the development of the NAS concept. If selection of one of the two proposed designs is made based on their technical feasibility and advancement in the state-of-the-art, then the program would enter a low level-of-effort preliminary final design stage lasting one year. There is $4 million included in the Research and Technology Base for this initial effort. If neither proposal is found to be technically acceptable, NASA would use the funds to continue studies to reevaluate the approach to the development of the NAS concept.

The following list provides the major milestones of the currently proposed NAS development:

Preliminary Design Review	1983
Begin Full Scale Development (requires new start authority)	1984
System Simulation Complete	1984
Critical Design Review	1984
Begin Fabrication	1985
Integration and Test Complete	1987
System Operational	1988

MULTIDISCIPLINARY UNIVERSITY RESEARCH IN AERONAUTICS

Question: Last year you requested $5,900,000 for your multidisciplinary research program in aeronautics. The objectives of this program are to conduct novel, long-range, multidisciplinary research related to aeronautics at a variety of universities. What has been your basic impression of the utility of this program since its inception?

What specific advancements to the state-of-the-art have occurred as a result of projects funded under this activity?

How many graduate students do you expect will be supported through this program during FY 1982?

For FY 1983, you are requesting $3.5 million for this program. How many graduate students will be supported in FY 1983 as a result of this reduced level?

What was your request to OMB for this program in FY 1983?

What is the rationale for reducing the program in FY 1983?

Answer: The Multidisciplinary program continues to meet its objectives of providing high risk basic research investigations in engineering and physical sciences related to aeronautics as well as sponsoring graduate training that is essential to the maintenance of a cadre of capable scientists and aeronautical engineers for the future.

The Multidisciplinary program supports independent research across a broad specturm of engineering and scientific disciplines. A portion of this support goes to graduate student research projects to provide training and to stimulate new ideas and concepts. Under the Multidisciplinary program, a number of novel and high potential ideas and concepts have emerged. In 1981, the Flory liquid crystal concept was confirmed at William and Mary College. This opened up the possibility for use of new polymers in aircraft applications. At the Massachusetts Institute of Technology, a new and unusual approach to solving problems of unsteady transonic flow was also discovered. These new ideas are now being assessed. At the University of Maryland a theoretical model has been developed to define the characteristics of air flow over general aviation aircraft wings at "stall" just before spin occurs. The model will greatly aid the investigations of flow phenomena which possibly causes spin.

In FY 1982, about 75 graduate students will be supported by the program. In 1983, the proposed funding would support approximately 45 students.

NASA requested $6.6 million in the FY 1983 OMB submission.

Reduction in support of graduate research by this program will be augmented by an increase in funding of academic research from other programs in the Research and Technology Base.

AERONAUTICS SYSTEMS TECHNOLOGY PROGRAMS

Question: Your FY 1981 budget contained $137,553,000 for your Aeronautics Systems Technology programs. Your FY 1982 March request contained $107 million. Your Operating Plan for FY 1982 contains $70.5 million. Your current request for FY 1983 contains $50 million. This represents a 64 percent decrease from the FY 1981 level. What was your request to OMB for FY 1983?

What items would not be funded under your current budget request?

What has been your experience relative to industrial cost sharing of this program--that is, what percent of the program cost have been borne by industry?

Answer: The FY 1983 Aeronautics System Technology request to the OMB was $153.2 million.

The reduction in the runout of the ongoing program resulted in the elimination or reduction in a number of planned System Technology activities. The following reflects a list of programs that would not be funded or would be reduced in scope in FY 1983 within the $50 million request.

Materials & Structures System Technology	
Integrated Program for Aerospace Vehicle Design	(cancelled)
Aeroelasticity of Turbine Engines	(cancelled)
Turbine Engine Hot Section Technology	(reduced)
Propulsion Systems Technology	
Helicopter Transmission Technology	(cancelled)
Broad Property Fuels	(cancelled)
Systems Studies	(cancelled)
Low-Speed Aircraft Systems Technology	
Powered-Lift Technology	(cancelled)
TRRA System Technology	(cancelled)
Advanced Rotorcraft Technology	(reduced)
Low-Speed Simulation and Flight System Support	(reduced)

Transport Aircraft Systems Technology	
*Laminar Flow Control	(cancelled)
*Energy Efficient Transport	(cancelled)
*Composite Primary Aircraft Structures	(cancelled)
Terminal Configured Vehicle	(reduced)
Advanced Propulsion Systems Technology	
*Energy Efficient Engine	(cancelled)
*Advanced Turboprop System	(cancelled)

*Aircraft Energy Efficient (ACEE) Program Element

Several elements of the ACEE program were found to be appropriate for industry cost sharing. The NASA/industry share is given below:

	($ in millions) TOTAL THROUGH FY 1982			
ACEE PROGRAM	NASA	%	INDUSTRY	%
Engine Component Improvement	39.3	93	2.8	7
Advanced Turboprop System	15.5	100	-	0
Laminar Flow Control	29.2	100	-	0
Energy Efficient Transport	78.5	94	5.4	6
Energy Efficient Engine	173.9	90	18.8	10
Composite Primary Aircraft Structures	92.9	88	12.6	12
Total	429.3	92	39.6	8

The ACEE program areas are viewed to be a typical with regard to industry cost sharing. The more fundamental research and technology activities of the ongoing Aeronautics Research and Technology program do not normally lend themselves to formal cost sharing arrangements with the industry - primarily due to the desire to have these research results widely disseminated to the entire industry on a non-proprietary basis.

Question: Your budget justification indicates that the FY 1983 program objectives were those judged to be the most critical by in-house assessment, industry, military, and advisory groups.

Does this imply that industry representatives recommended the funding levels contained in the FY 1983 budget or were satisfied with the focus of the program?

Answer: No, the budget justification statement does not imply either that industry representative recommended the funding levels contained in the FY 1983 budget or that they were satisfied with the focus of the program.

Neither industry, the military nor NASA's advisory groups were involved in the decision-making process. However, NASA did take into account the view and opinions of these groups as expressed throughout the year during Advisory Committee meetings and other discussions in setting priorities and making budgetary decisions.

Qustion: What level of funding was available in FY 1982 and will be available in FY 1983 for the programs undertaken in your: aeronautical system studies; materials and structures systems technology; propulsion systems technology; avionics and flight control systems technology; general aviation systems technology; transport aircraft systems technology; and advanced propulsion systems technology?

Answer: The information requested is provided below:

	FY 1982 CURRENT ESTIMATE	FY 1983 BUDGET ESTIMATE
	($ in millions)	
Aeronautical System Studies	-	-
Materials & Structures Systems Tech	6.6	5.6
Integrated Program for Aerospace Vehicle Design	1.3	-
Aeroelasticity of Turbine Engines	0.3	-
Turbine Engine Hot Section Tech	5.0	5.6*
Propulsion Systems Tech		
Helicopter Transmission Tech	0.5	-
Broad Property Fuels Tech	-	-
Avionics & Flight Control Systems Tech	1.3	-
Advanced Guidance & Control Systems	1.3	-
General Aviation Systems Tech	-	-
Transport Aircraft Systems Tech	13.4	-
Laminar Flow Control	4.0	-
Energy Efficient Transport	3.0	-
Composite Primary Aircraft Structures	4.9	-
Terminal Configured Vehicle	1.5	-
Advanced Propulsion Systems Tech	15.4	-
Energy Efficient Engine	11.2	-
Advanced Turboprop Systems	4.2	-

* The Turbine Engine Hot Section Technology (HOST) program previously funded under the Materials and Structures Systems Technology program will be carried out under the High-Speed Aircraft Systems Technology program beginning in FY 1983. The FY 1983 funding level for HOST is $5.6 million.

ION AUXILIARY PROPULSION SYSTEM

Question: Please describe the status of your ion auxiliary propulsion system flight experiment.

Answer: In April 1982, the systems tests of the "X" and "Z" module thruster subsystems were completed. During May 1982 an acceptance test will be conducted with the Air Force followed by shipment of the experiment system to Rockwell International for integration with the USAF P80-1 spacecraft. Launch of the spacecraft is planned for 1984.

HIGH SPEED AIRCRAFT SYSTEMS TECHNOLOGY

Question: Your FY 1982 Operating Plan contains $7.7 million for your High Speed Aircraft Systems Technology program. For FY 1983, you are requesting $20 million for this program. How do you explain this rather large increase in the level of effort of this program?

What specific activities will be undertaken in FY 1983 that were not undertaken in FY 1982 and what are their costs?

Answer: The increase in the FY 1983 High Speed Aircraft Systems Technology program covers the previously planned increase in runout of the ongoing program plus inflation, which together represent a $1.5 million increase from $7.7 million to $9.2 million. In addition, realignments within the total FY 1983 Aeronautics program resulted in an increase of $10.8 million in the High Speed Aircraft Systems Technology program. The $10.8 million increase includes:

- $5.6 million for Turbine Engine Hot Section Technology (HOST) which was previously carried under Materials and Structures Systems Technology.
- $5.2 million for the Dryden Flight Research Facility for aircraft operations which was previously carried under the High Speed Aircraft Research and Technology Base.

There are no new activities to be undertaken in FY 1983; only existing programs will be continued.

ENERGY TECHNOLOGY PROGRAM

Question: This year you are not requesting any funds for your energy technology program. You did not request any funds for this program in FY 1982. Are there any personnel implications associated with the zero funding for this program?

Answer: Since its inception in FY 1975, the NASA energy "seed money" program funded research at NASA centers that resulted in a number of energy projects being undertaken by NASA. The result of zero funding in FY 1982 and FY 1983 will be that NASA will concentrate on completing the direct energy work underway. By the end of FY 1983, essentially all commitments will have been met. Quantification of the impact of this decision is difficult to make since the purpose of the program was to identify new opportunities to apply NASA expertise. In FY 1981, the last year that NASA "seed money" was available, approximately 75 people at NASA centers and Headquarters were devoted to NASA energy programs.

TRACKING AND DATA ACQUISITION

Question: In describing your activities for your Tracking and Data Acquisition System, you state that in FY 1983 "system funding will sustain the existing facilities and systems at the lowest levels consistent with the support of the ongoing mission". Your request for Tracking and Data Acquisition is for $447.6 million--excluding a $61.3 million associated with the Tracking and Data Relay Satellite System. This represents an increase of approximately 11 percent over your current FY 1982 plan. Why do you feel that this request will only allow you to sustain the system at the "lowest levels"?

What was your request to OMB for Tracking and Data Acquisition and what activities or programs will not be conducted at your current requested level?

Answer: The 11 percent increase over the FY 1982 Operating Plan excluding the $61.3 million for Tracking and Data Relay Satellite System (TDRSS) is due largely to inflation and the provision for the initial operation and transition costs associated with TDRSS related systems. Of the 11 percent increase, 7 percent is due to inflation, approximately 3 percent to TDRSS related operations and transition costs and the balance of about 1 percent due to Space Telescope support preparations and the replacement of computer systems.

To accommodate these increases, we have constrained the sustaining effort in our systems implementation program at a level which assumes increased risk in support of ongoing missions.

Our request to the OMB excluding the TDRSS amount, was $479.5 million or $31.9 million greater than the $447.6 million submitted in our request. Among the major adjustments was the deletion of Research and Development funding for electronics associated with four new 34-meter Deep Space Network antennas, an adjustment in the allowance for inflation, and a reduction in the sustaining effort including sustaining engineering effort at the Jet Propulsion Laboratory.

TRACKING AND DATA RELAY SATELITTE SYSTEM (TDRSS)

Question: It is my understanding that the current contract arrangement for TDRSS is under review. What options are you considering?

What is the status of the review and when can we expect to know your final decision?

Answer: A major contract reformation is currently under joint consideration by NASA and SPACECOM. The principal item being considered for change is the nature of the service provided via Tracking and Data Relay Satllite Systems contract. The current contract provides for shared service, i.e., both commercial and NASA service. NASA is considering changing that service to service dedicated solely to NASA needs. Assessments are being conducted by both sides to determine the nature of the consideration each could offer for such a reformation. NASA will keep the Congress apprised of this situation as it develops. We plan to resolve this issue in the next few months.

Question: Your Tracking and Data Relay Satellite System will eventually replace most ground stations in providing tracking, command and control services to all low-earth orbital missions. The first spacecraft is expected to be launched in January 1983 and the second in July 1983. What is the current status of this program?

What is the status of the ground station at White Sands, New Mexico?

What are your immediate and long range plans for the Spaceflight Tracking and Data Network System land stations?

Answer: The first two Tracking and Data Relay Satellites (TDRS) are on schedule for launch in January 1983 and July 1983. The first satellite is being prepared for its final series of environmental and functional tests and is planned to be shipped to the Kennedy Space Center in November of this year. The second satellite is in the final stages of construction and is being prepared for environmetal and functional tests which will start in the fall.

At the contractor-operated TDRS ground terminal at White Sands, New Mexico, software debugging and service level testing are continuing. Initial data flow and compatibility testing between NASA systems and the ground terminal have been initiated. Testing for the baseline software and hardware will be completed this spring. Verification testing will be completed by September, and interface testing for launch and flight operations will be initiated in October.

When the TDRS achieves operational capability in 1984, earth orbit spacecraft will be supported by this system. This will permit closure of the Spaceflight Tracking and Data Network stations located in Guam; Hawaii; Santiago, Chile; and Ascension Island. Operations at the special purpose Shuttle stations at Dakar, Senegal; Gaborone, Botswana; and Yarragadee, Australia will be terminated.

The Alaskan station will support Landsat and Nimbus satellites through October 1984, when responsibility for that station will be transferred to the National Oceanic and Atmospheric Administration (NOAA). The three Spaceflight Tracking and Data Network stations in California, Spain, and Australia will be consolidated with the deep space facilities under the Jet Propulsion Laboratory and will continue to support highly elliptical and geosynchronous orbit, as well as provide backup support for Shuttle and TDRS in emergency situations. The Greenbelt, Maryland, tracking station will be retained until support for the International Ultraviolet Explorer is ended. The Bermuda and Merritt Island tracking stations will be partially deactivated in 1984 and will support only launch and landing tasks.

Question: On page RD 12-8 of your budget justification, you indicate that your request for the Spaceflight Tracking and Data Network Operations contains "funding for achieving the staffing levels necessary for operating the TDRSS related ground systems including initial operation of the network control center". What additional staffing levels are included in the budget for this activity?

What will be the net effect on NASA staffing requirements due to the implementation of the TDRSS during FY 1983, FY 1984 and FY 1985?

Answer: For FY 1983, there are approximately 150 additional support contractor personnel involved in the operations for the NASA systems which are necessary to provide service via the Tracking Data Relay Satellite (TDRS) to users. These include the NASA ground terminal at White Sands and the Network Control Center as well as network support personnel at GSFC which are involved in the integration, testing, and operational preparation for TDRS service.

In FY 1985, approximately 2,300 man years of contractor support is provided for the Spaceflight Tracking and Data Network (STDN) and TDRS which is a net decrease of 650 man years from the present level of approximately 2,950.

Question: You are requesting $61,300,000 for TDRSS. These funds are being requested to initiate repayment of the construction loans to the Federal Finance Bank. In addition, you state that the funds will be used to make operations and award fee payments to the Space Communications Company and to provide support to the NASA TDRSS project management staff in the area of systems engineering and operations planning. How much of the $61 million will be allocated for each of these purposes?

What are your estimated costs for each of these purposes during FY 1984 and FY 1985?

What would be the consequences if the payment to the Federal Finance Bank was not made at this time?

Answer: Of the $61.3 million requested for FY 1983, the largest part is the initial Federal Finance Bank (FFB) loan repayment of $58.9 million. The request also contains the initial operations payment of $0.9 million, and $1.5 million to provide support to our project management staff and, to the extent required, also includes award fee.

Preliminary estimates of funding requirements for these purposes in FY 1984 and FY 1985 are:

	FY 1984	FY 1985
	($ in millions)	
Loan Repayment	215	218
Operations	11	11
Award Fee	2	2
Project Management Support	2	2

The loan agreement that NASA is currently negotiating with the Federal Finance Bank stipulates an initial payment on July 1, 1983. If appropriated funds are not available for this payment, NASA must negotiate a new agreement with the bank. Delay in payments will incur additional interest expense.

Question: Last week the **Aerospace Daily** carried a one sentence announcement stating that the Soviet Union registered a mid-1980's synchronous orbit slot for two satellites to relay transmission from low-orbit satellites to ground stations, similar to your TDRSS. Could you tell us something about the expected launch dates, purposes, and capabilities of the Soviet system?

Answer: Earlier this year, the Soviet Union provided the International Frequency Registration Board information for advanced publication of a network of three data relay satellites supported by two ground terminals, one located in the eastern and the other in the western USSR.

The data relay satellites, to be launched in December 1983, December 1984, and December 1985 (according to the Soviets), would be placed in synchronous orbit to relay data communications between subscriber satellites in low-earth orbit and the land-based ground terminals. This data relay system appears to be similar in function to our Tracking and Data Relay Satellite System, but we have little information with respect to the Soviets plans for utilization of their system.

HALLEY COMET COSTS

Question: Will we be providing the tracking and data acquisition activities for the missions to Halley's Comet by the European Space Agency and the Japanese?

If so, what cost arrangements have been reached?

Answer: No formal agreement on support has been reached with either Japan or the European Space Agency. However, it is anticipated that the Deep Space Network will support both missions. The arrangments would be for full reimbursement of all NASA costs incurred in the support of each mission. At this time, negotiations are in progress with the European Space Agency on the extent of the Deep Space Network support and the schedule of the Deep Space Network activities. The total anticipated cost to the European Space Agency from FY 1982--FY 1986 is expected to be approximately $2.5 million (in real year dollars).

US/USSR SPACE PROGRAMS

Question: How would you assess the Soviet space capability relative to the United States?

Answer: It is difficult, particularly on an unclassified basis, to offer a meaningful comparison of Soviet space efforts with those of the United States. In broad terms, however, a few statements can be made that may be useful. Analysts with the Library of Congress estimate that the Soviet combined civil/military space budget is about 2 percent of their Gross National Product, versus approximately 0.3 percent for the comparable U.S. effort. Therefore, in absolute terms, the Soviet space budget is about triple that of the United States. Soviet spacecraft are currently being launched at about 6 times the U.S. launch rate.

The Soviet manned program puts particular emphasis on long-duration operations aboard the Salyut series of space stations. The latest evolution in this series, Salyut 7, was launched on April 19 and rendezvoused with the station for the first of a new series of long-duration flights. To date, Soviet cosmonauts have clocked over twice as many man-hours in space as have American astronauts; their record for longest space flight by a single crew stands at 185 days, versus 84 days for the longest-duration U.S. crew on Skylab.

On the other hand, the Soviet Union has no spacecraft, at this time, which compares with the Space Shuttle, and our technological lead in this area is clear. Recently, a Soviet Embassy Scientific Attache told a Washington audience that the USSR may test a reusable Shuttle-like spacecraft "in about five years." The Soviets do have a number of conventional launch vehicles, but nothing to date which approaches the lift capacity of the U.S. Saturn V.

Therefore, we believe the Soviets are committed to a broad-based, consistent effort in space research and technology for both military and civil purposes. The program appears to be well-funded, ambitious and moving forward vigorously.

UNISPACE

Question: What is the extent of your involvement in UNISPACE '82?

Answer: NASA Administrator James M. Beggs will head the U.S. Delegation to the conference. In addition, while U.S. Government preparations for UNISPACE are being coordinated by the Department of State Coordinator's Office, NASA, along with several other Government agencies, is working closely with that office in preparing U.S. positions, exhibitions, demonstrations and possible initiatives for UNISPACE. Although NASA will play a key role throughout preparations for the conference, day-to-day activities are the responsiblity of the Department of State Coordinator's office.

NASA was responsible for coordinating preparation of the U.S. National Paper for UNISPACE and made arrangements with the American Institute for Aeronautics and Astronautics for their services in coordinating private sector participation in the U.S. national exhibition for UNISPACE. NASA will contribute to the U.S. Government portion of the overall U.S. national exhibition.

SOVIET SPACE TELESCOPE

Question: Recent statements by the Soviets suggest that they are working on a large telescope for scientific purposes. Are you aware of such activities and can you provide us with more details on the launch date and capabilities for such a telescope?

Answer: The Russians have flown astronomical-type telescopes along with their Salyut space station. In addition, they flew a radioastronomy telescope free-flyer, but have flown nothing comparable to the U.S. Space Telescope. We understand that the Russians are reviewing the possibility of a "Space Telescope" type development sometime in the future, but we are not aware of what this system will look like.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

RESEARCH AND DEVELOPMENT

PROGRAM AND FINANCING (in thousands of dollars)
(Direct Program only)

Identification code 80-0108-0-1-999	Budget plan (amounts for research and development actions programmed)			Costs and obligations		
	1981 actual	1982 est.	1983 est.	1981 actual	1982 est.	1983 est.
Program by activities:						
Direct program:						
1. Space transportation systems:						
(a) Space Shuttle........................	1,995,000	2,163,000	1,718,000	2,047,559	2,186,600	1,756,100
(b) Space flight operations..............	679,200	895,900	1,707,000	626,090	888,500	1,539,000
*(c) Expendable launch vehicle development	37,700	15,800	33,500	35,365	27,200	34,000
2. Scientific investigations in space:						
*(a) Physics and astronomy................	331,900	329,800	478,000	330,282	332,100	434,200
(b) Planetary exploration................	175,600	205,000	154,600	203,165	187,400	169,600
(c) Life sciences........................	42,188	39,500	55,700	42,953	42,300	46,700
3. Space and terrestrial applications:						
*(a) Space applications...................	340,050	334,900	319,300	347,062	340,800	322,800
(b) Technology utilization...............	8,800	8,000	4,000	11,597	9,500	5,900
4. Space research and technology............	110,700	111,000	123,000	116,291	116,900	120,300
5. Aeronautical research and technology......	271,400	233,000	232,000	286,363	281,300	242,100
6. Energy technology........................	1,900	---	---	2,208	400	100
7. Supporting activity:						
(a) Tracking and data acquisition........	339,900	402,100	508,900	363,303	360,400	532,200
Total direct program..................	4,334,338	4,738,000	5,334,000	4,412,238	4,773,400	5,203,000

*Reflect redistribution of launch vehicle hardware after publication of the President's budget. No net effect on total program.

Table B

Program Activity	Page in Budget Justification Book
Space Shuttle	
Design, Development, Test and Evaluation	
Orbiter	
Shuttle Orbiter Development	RD 1-7
Shuttle Software Development	RD 1-8
Shuttle Avionics Integration Lab Support	RD 1-8
Shuttle Remote Manipulator System	RD 1-7
Extra-Vehicular Mobility Unit	RD 1-6
Manned Manuevering Unit	RD 1-17
Main Engine	
Shuttle Main Engine Development	RD 1-9
Propellants for Engine Test and Orbital Flight Tests	RD 1-9
External Tank	
Shuttle External Tank Development and Tanks for Orbital Flight Tests	RD 1-10
Solid Rocket Booster	
Shuttle Solid Rocket Booster System, Elements including recovery system, thrust vector control, attach structures, forward and aft skirt, separation motors	RD 1-12
Shuttle Solid Rocket Motor Development and Hardware for orbital flight tests	RD 1-12
Launch and Landing	
Shuttle Launch and Landing Equipment and support including Launch Control Center equipment, launch processing system, related ground support systems and on-site launch support by Shuttle development contractors	RD 1-13
Production	
Orbiter	
Shuttle Orbiter production	
Orbiter 099	RD 1-16
Orbiter 103	RD 1-16
Orbiter 104	RD 1-17
Orbiter 105 long-lead procurement	RD 1-17

Table C

Program Activity	Page in Budget Justification Book
Follow-on procurement of the Remote Manipulator System	RD 1-17
Closed Circuit Television System	RD 1-17
Automatic Checkout Equipment	RD 1-18
Software Development Facility	RD 1-17
OSTA-1	RD 1-7
Main Engine	
Shuttle Main Engine Production	
Launch and Landing	RD 1-19
Equipment for "second line" launch processing and check-out equipment at KSC, including Launch Control Center, launch processing system and modification to second and third firing rooms	
Spares and Equipment	RD 1-20
Spares and equipment for flight hardware and ground support equipment, and for equipment including Life Support Systems and Extra-Vehicular Mobility Unit	RD 1-24
Rate Tooling for External Tank and Solid Rocket Motor and other SRB component production	RD 1-23
Space Flight Operations	
Space Transporation Systems (STS) Operations Capability Development	
Space Transportation System Upper Stages	
Inertial Upper Stage (IUS) Development	RD 2-7
Centaur Upper Stage Development	RD 2-7
Multimission and Payload Support Equipment	RD 2-7
Payload Transportation Equipment	RD 2-9
Payload Specialist Station Equipment and Mixed Cargo Support Equipment	
Flexible Multiplexer/Demultiplexer	
Cargo Integration and Test Equipment (CITE)	
Trace Gas Analyzer	
Mission Kits	
Mission Control Center Upgrading (Level II)	RD 2-10

Program Activity	Page in Budget Justification Book
Additional Flight Control and Support Rooms and related hardware and communication interface equipment	
Software Development	
Simulation network and dual launch site interface equipment and software	
Payload and Operations Support	RD 2-11
Design, hardware procurements and software developments for Payload Operations Control Center	
Development, Test and Mission Support	
Research and Test Support	RD 2-14
Technical, engineering, scientific, reliability, quality assurance, and safety support operations at Johnson Space Center and Marshall Space Flight Center	
Data Systems and Flight Support	RD 2-15
Computer Center Support - JSC	
Operation of Mission Control Center - JSC	
Flight Support and Crew Training Activities - JSC	
Operations Support	RD 2-15
Maintenance and Operation Facilities - JSC, MSFC and KSC	
Test Support at White Sands Test Facility	
Facility Support at National Space Technology Labs	
Launch Systems Support	RD 2-15
Maintenance and Operations of Launch Systems and Facilities - KSC	
Computer and Software Support	
Technical Services Support	
Spacelab	RD 2-20
In addition to procurement of one Spacelab and spares from the European Space Agency, U.S. procurements include:	
Flight and ground support equipment	
Crew transfer tunnel	
Development and integration of Spacelab simulator	
Logistics and Maintenance Capability	

Program Activity	Page in Budget Justification Book
Space Transportation Systems Operations	
Shuttle Operations	
External tanks for operational missions Solid rocket motors and other solid rocket booster components for operational missions Replenishment spares for orbiter, main engines, crew equipment, ground systems. Analytical, engineering and operational support activities	RD 2-25
Upper Stage Operations	
Procurement of two-stage Inertial Upper Stage, Solid Spinning Upper Stage and Centaur Upper Stage hardware for operational missions	RD 2-26
Expendable Launch Vehicles	
Delta Launch Vehicles	RD 3-1
Physics and Astronomy	
Space Telescope (ST) Development	
Spacecraft	
Optical Telescope Assembly	RD 4-8
Support Systems Module	RD 4-8
Primary Mirror	RD 4-8
Experiments/Scientific Instruments	RD 4-8
International Solar Polar Mission (ISPM) Development	
Spacecraft (Cancelled)	RD 4-11
Experiments	RD 4-11
Ground Operations	RD 4-11
Auxiliary Propulsion Systems	RD 4-11

Program Activity	Page in Budget Justification Book
Gamma Ray Observatory (GRO) Development	
Spacecraft	RD 4-13
Experiments	RD 4-13
Shuttle/Spacelab Payload Development and Mission Management	
Spacelab mission management and integration	RD 4-15
Advanced Gimballed System	
OSS 3,4,5 and 6	
Spacelab 1	
Spacelab 2	
Spacelab 4	
Solar Optical Telescope	RD 4-17
Explorer Development	
Dynamics Explorer (DE)	RD 4-18
Solar Mesosphere Explorer (SME)	RD 4-18
Infrared Astronomical Satellite (IRAS)	RD 4-19
Active Magnetospheric Particle Tracer Explorer (AMPTE)	RD 4-20
San Marco-D Explorers (SM-D)	RD 4-19
Cosmic Background Explorer (COBE)	RD 4-19
Mission Operations and Data Analysis (MO&DA)	RD 4-21
HEAO Extended Mission	RD 4-21
SMM Retrieval/Repair Mission	RD 4-22
Space Telescope Operations	RD 4-21
Space Telescope Science Institute	RD 4-23
Space Telescope Maintenance/Refurbishment	RD 4-23
Explorer Operations	RD 4-21

Program Activity	Page in Budget Justification Book
Research and Analysis	RD 4-24
Supporting Research and Analysis	
Advanced Technology Development	
Data Analysis	
Planetary Exploration	
Galileo Development	
Spacecraft	RD 5-5
Orbiter	
Probe	
Experiments	RD 5-5
Ground Operations	RD 5-5
Auxiliary Propulsion System (kick stage) Development	RD 5-6
Venus Orbiting Imaging Radar (VOIR) Development (Cancelled)	RD 5-7
Mission Operations and Data Analysis	
Planetary Flight Support	RD 5-8
Voyager Operations	RD 5-8
Research and Analysis	
Supporting Research and Analysis	RD 5-11
Halley's comet co-investigations and watch	RD 5-11
Advanced Programs	RD 5-11
Life Sciences	
Life sciences flight experiments	RD 6-4

Program Activity	Page in Budget Justification Book
Life sciences research and analysis	RD 6-5
Space Applications Program	
Resource Observations	
Landsat D	
Spacecraft systems and sensors	
Thematic Mapper	RD 7-12
Multispectral Scanner	RD 7-12
Multimission Modular Spacecraft	RD 7-12
Ground System	RD 7-12
Ground Operations	RD 7-12
Extended Mission Operations	RD 7-12
Shuttle/Spacelab Payload development	RD 7-15
Large Format Camera	
Geodynamics	RD 7-17
AgRISTARS	RD 7-19
Applied Research and Data Analysis	RD 7-22
Multilinear array advanced technology development	RD 7-24
Renewable Resources	
Non-renewable Resources	
Environmental Observations	
Upper Atmospheric Research Program	RD 7-28
Applied Research and Data Analysis	RD 7-31
Severe storms	RD 7-34
100 MIPS (Vector Processor)	RD 7-34
Shuttle/Spacelab Payload Development	
Atmospheric trace molecules observed by spectroscopy (ATMOS)	RD 7-39
Operational Satellite Improvement Program	
Scanning Backscatter Ultraviolet (SBUV) instrument	RD 7-42
Earth Radiation Budget Experiment	
Spacecraft	RD 7-43

Program Activity	Page in Budget Justification Book
Sensors	RD 7-43
Ground Operations	RD 7-43
Halogen Occulation Experiment	
Sensor development	RD 7-49
Extended Missions Operations	
Upper Atmosphere Research Satellite Experiments and Mission Definition	RD 7-47
High Resolution Doppler Imager	
Cryogenic Limbscanning Array Etalou	
Spectrometer	
Particle Environment Monitor	
Halogen Occultation Experiment	
Microwave Limb Sounder	
Solar Ultraviolet Spectral Irradiance Monitor	
Applications Systems	RD 7-51
Technology Transfer	RD 7-52
Materials Processing in Space	
Applied Research and Data Analysis	RD 7-55
Shuttle/Spacelab payload development	
Solidification experiments systems (cancelled)	RD 7-57
Fluid Experiment System/Vapor Crystal Growth System	RD 7-57
Materials Experiment Operations	RD 7-58
Communications and Information Systems	
Search and Rescue Mission	RD 7-60
Applied Research and Data Analysis	
30/20 GHz Technology Development	RD 7-62
Information Systems	RD 7-67
Aeronautical Research and Technology	

Program Activity	Page in Budget Justification Book
Research and Technology Base	
Propulsion Research and Technology	
Lewis Research Center Computer Upgrade	RD 9-10
Aerodynamics Research and Technology	
Ames Research Center Class VI Computer	RD 9-7
High Speed Research and Technology	
V/STOL Tilt Nacelle Development	RD 9-25
Systems Technology Programs	
High Speed Aircraft Systems Technology	
High Maneuverable Aircraft Technology	RD 9-37
Tracking and Data Acquisition	
Network Operations	
Spaceflight Tracking and Data Network Operations	RD 12-6
Maintenance and Operations of Stations (TDRS operations)	RD 12-7
Australian Contract	RD 12-7
Spain Contract	RD 12-7
Software procurements	RD 12-7
Logistics procurements	RD 12-7
Deep Space Network	
Maintenance and operations of network facilities, control center and engineering effort for DSN operations	RD 12-9
Spain Contract	RD 12-9
Australian Control	RD 12-9
Data Processing Operations	
Goddard Space Flight Center Data Processing facilities maintenance and operations	RD 12-14
Software contracts	RD 12-14

Program Activity	Page in Budget Justification Book
Systems Implementation	
Spaceflight Tracking and Data Network Systems Implementation	
Software contracts	
Space Telescope Implementation	RD 12-17
Deep Space Network	RD 12-17
Network consolidation, spacecraft acquisition and tracking, modifications at the Network Control Center, for scheduling, overall coordination of the network activities	RD 12-19
Data Processing Systems Implementation	
Computer replacements GSFC	RD 12-23

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
RESEARCH AND DEVELOPMENT
MARSHALL SPACE FLIGHT CENTER

($ in millions)

	FY 1982 OP PLAN	FY 1983 BUDGET REQUEST	△	REMARKS
Space Shuttle	473.0	495.8	+22.8	Increase for Filament Wound Case for Performance Augmentation.
Space Flight Operations	528.9	769.2	+240.3	Increase in production of the external tank and solid rocket booster for operational flights for FY 1983-85; upper stage operations increase due to procurement of planetary vehicles.
Physics and Astronomy	165.2	221.8	+56.6	Buildup of Space Telescope development effort, and Spacelab Payload Development and Mission Management activities.
Space Research and Technology	9.5	14.4	+4.9	Reasearch and Technology Base escalation adjustment, and increased Chemical Propulsion Research and Technology.
Other	21.3	20.0	-1.3	
TOTAL	1197.9	1521.2	+323.3	

Table D

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
RESEARCH AND DEVELOPMENT
GODDARD SPACE FLIGHT CENTER

($ in millions)

	FY 1982 OP PLAN	FY 1983 BUDGET REQUEST	△	REMARKS
Space Flight Operations	4.8	7.4	+2.6	Additional multimission payload support equipment.
Expendable Launch Vehicles	27.6	40.7	+13.1	Increased requirements in support of NASA flight missions on Delta launch vehicle.
Physics and Astronomy	104.4	170.2	+65.8	Increase is the result of the initiation of Space Telescope maintenance/refurbishment efforts; increase in activities in preparation for Space Telescope operations including Science Institute; buildup of Gamma Ray Observatory design and development efforts; and increased Spacelab payload activities.
Space Research and Technology	9.0	10.6	+1.6	Escalation adjustment and other minor increases in research and technology base.
Tracking and Data Aquisition	281.5	380.2	+98.7	Increased network operations support for TDRSS and Shuttle. Initiation of repayment of the TDRSS construction loan.
Other	201.0	194.4	-6.6	
TOTAL	**628.3**	**803.5**	**+175.2**	

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
RESEARCH AND DEVELOPMENT
HEADQUARTERS

($ in millions)

	FY 1982 OP PLAN	FY 1983 BUDGET REQUEST	△	REMARKS
Space Shuttle	34.2	118.8	+84.6	Changes and System Upgrading is carried in the Headquarters line until distributed; remainder of increase due to Headquarters retained reserves.
Space Flight Operations	12.6	21.2	+8.6	Additional contract administration charges for increased level of program activity.
Physics and Astronomy	24.7	30.1	+5.4	Increased funding for research studies and science investigations.
Life Sciences	6.3	8.6	+2.3	Increased funding for research studies and science investigation.
Space Research and Technology	2.7	4.2	+1.5	Increase in safety, reliability and quality assurance programs.
Other	68.9	56.4	-12.5	
TOTAL	**149.4**	**239.3**	**+89.9**	

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
RESEARCH AND DEVELOPMENT
NATIONAL SPACE TECHNOLOGY LABORATORY

($ in millions)

	FY 1982 OP PLAN	FY 1983 BUDGET REQUEST	△	REMARKS
Space Flights Operations	5.9	4.8	-1.1	Completion of program support procurements.
Other	3.2	2.8	-.4	
TOTAL	9.1	7.6	-1.5	
		LANGLEY RESEARCH CENTER		
Space Applications	12.0	10.8	-1.2	Reduction in Environmental Observations correlated measurements program
Aeronautics Research and Technology	80.5	76.0	-4.5	Reduction in Systems Technology activities: Laminar Flow Control, Energy Efficient Transport, Terminal Configured Vehicle, Composite Primary Aircraft Structures and Integrated Program for Aerospace Vehicle Design.
Other	29.6	28.7	-.9	
TOTAL	122.1	115.5	-6.6	

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
RESEARCH AND DEVELOPMENT
LEWIS RESEARCH CENTER

($ in millions)

	FY 1982 OP PLAN	FY 1983 BUDGET REQUEST	△	REMARKS
Space Applications	8.7	6.1	-2.6	Reduction in Communications definition activities.
Aeronautics Research and Technology	65.3	54.6	-10.7	Reductions in Helicopter Transmission Technology, Advanced Turboprops and Energy Efficient Engine.
Space Research and Technology	23.5	22.1	-1.4	Research and Technology base reduction, primarily in Chemical Propulsion.
Other	.8	5.0	+4.2	
TOTAL	**98.3**	**87.8**	-10.5	

NASA received $248.2 million in orders from non-Federal sources in FY 1981. The estimate for FY 1982 orders from non-Federal sources is $288.8 million. The detail of these services is as follows:

	(In Thousands)	
	FY 1981	FY 1982
TOTAL	248,193	288,799
Space Transportation Systems and Operations	241,668	283,913
STS operations capability development	13,266	---
STS operations	26,440	58,100
Development, test and mission support	134	64
Expendable launch vehicles	201,828	225,749
Space Science	1,735	1,347
Physics and astronomy	(1,668)	(1,261)
Research and analysis	16	18
Mission operations and data analysis	98	123
Solar polar mission development	1,025	931
Explorer development	332	---
Suborbital programs	197	189
Planetary exploration	(67)	(86)
Research and analysis	67	86
Space and Terrestrial Applications	1,378	657
Applications programs	(304)	(10)
Environmental observations applied research and data analysis	4	---
Meteorlogical soundings	127	---
Resources observations extended operations	163	---
Application systems verification test	10	10
Technology utilization	(1,074)	(647)
Aeronautics and Space Technology	992	---
Aeronautical research and technology	(42)	(---)
Energy Technology	(950)	(---)
Tracking and Data Acquisition	2,420	2,882

Table E

National Aeronautics and Space Administration

($ IN MILLIONS)

	FY 1982		
	BUDGET ESTIMATE	CURRENT ESTIMATE	Δ
ORBITER DDT&E	$372	$422	+$50
PRIMARY REASONS FOR CHANGE			
ROCKWELL ORBITER		+23	- DEFERRAL OF LIFE QUALIFICATION TESTING FROM FY 1981 - IMPLEMENTATION OF CHANGES SUCH AS TRANSATLANTIC ABORT, AND MOTOR CONTROL ASSEMBLY
ROCKWELL INTEGRATION		+12	- ADDITIONAL ANALYTICAL STUDY REQUIREMENTS, PANEL REPORTS AND PROCEDURAL RECOMMENDATIONS AS A RESULT OF ANOMALIES FROM THE FLIGHT TEST PROGRAM
MANNED MANEUVERING UNIT		+4	- REDESIGN AND RETESTING OF QUALIFICATION UNITS
PROGRAM SUPPORT		+11	- ADDITIONAL ANOMALY TESTING FOR STS-2, 3, AND 4 BASED ON STS-1 EXPERIENCE - ET TRACKING SHIP FOR STS-2 - TEMPORARY S-BAND COMMUNICATION STATION IN DAKAR, SENEGAL

Table F

MEASURES TO INCREASE PAYLOAD DELIVERY CAPABILITY OF THE SPACE SHUTTLE:

		ESTIMATED COST (FY 1983$)			
	PERFORMANCE	FY 82	FY 83	BAL. TO COMPLETE	INITIAL OPS CAPABILITY
• ET WEIGHT REDUCTION	+6,000 lbs.	$ 4M	-	-	1/83
• SRM WEIGHT REDUCTION (STEEL CASE)	+ 500 lbs.	-[2]	-	-	1/83
• MAIN ENGINE THRUST 109%/109% VS 100%/100%	+10,000 lbs.	$116M	$ 40M	-	7/83
• HIGH PERFORMANCE SRM	+ 2,000 lbs.	$ 19M	$ 3M	-	7/83
• PERFORMANCE AUGMENTATION BASED ON FILAMENT WOUND SRM CASE	+5,500 lbs.	$ 5M	$ 60M	$185M[1]	10/85

1/ INCLUDES 3 FLIGHT SETS

2/ ALL FUNDS SPENT PRIOR TO FY 1982

Table G

UPPER STAGE/PLANETARY MISSION COST COMPARISON
(Millions of Dollars)

	FY 1982		FY 1983		Total-FY 1982 Through Completion	
	Total	Planetary Only	Total	Planetary Only	Total	Planetary Only
USING INTERIM UPPER STAGE						
Galileo Sept. 1985						
ISPM May 1986						
Transportation						
Stages and Integration	97	46	104	73	430	228
Science						
Galileo and International Solar Polar Mission	125	125	114	114	673	673
Total	222	171	218	187	1103	901
USING LONG WIDE-BODY CENTAUR						
Galileo and ISPM May/June 1986						
Transportation						
Stages and Integration	135	90	267	209	768	600
Science						
Galileo and International Solar Polar Mission	120	120	86	86	525	525
Total	255	210	353	295	1293	1125
Additional requirement for modification and acceleration of Pad B to support two launches in 1986 Window	1		19		11(Net)	

Table H

QUESTIONS SUBMITTED BY SENATOR HUDDLESTON

APPLIED RESEARCH AND DATA ANALYSIS (COMMUNICATIONS)

Question: The communications program known as the 30/20 GHz program has apparently been abandoned and is being replaced by the so-called advanced communications technology (ACTS) program. Is NASA committed to this new program?

Answer: NASA is currently redefining the structure of its communications program. No firm program plan has yet been established.

Question: We have been told that the new program will be about half the cost of the old program -- about $250-300 million, I presume. Does that simply mean we are going to get half of the old program or is there a real revision?

Can you assure us that the new program will include a test flight?

Answer: We have not yet defined exactly what our restructured communications program proposal will be. Therefore, a cost estimate has not yet been made. It is also too early in the definition stage to state whether an experimental flight test would be a part of our restructured program.

Question: Both the Europeans and the Japanese are developing similar programs. Can the revised program be in place in time to keep the U.S. communications industry competitive with foreign operations? How soon could a U.S. flight test occur?

Answer: We believe that NASA's planned program coupled with the incentives provided by the Administration's Economic Recovery plan will provide the U.S. communications industry the healthy environmental needed to meet foreign competition.

Question: What is your spending profile for the new program? How much do you need in FY 1982 and FY 1983 to maintain a viable advanced communications technology program?

Answer: A long-range spending profile for the program has not yet been developed. We expect to be able to carry out a viable program of technology research and development and system studies within our current FY 1982 and FY 1983 budget request.

REMOTE SENSING

Question: NASA will launch Landsat-D in 1982 and Landsat-D' is under development. However, managing the operation of the Landsat system is being transferred to NOAA. NOAA has requested funding in its budget to plan for operating the system. Exactly what division of responsibility do you anticipate in FY 1983?

Does the transfer of responsibilities mean that NASA in effect is losing a remote sensing role?

Answer: The current plan is that in January 1983, NOAA will assume responsibility for control of the Landsat-D spacecraft and the Multispectral Scanner (MSS) data processing operations. NASA, in its research and development role, will be responsible for processing Thematic Mapper data and will complete the development of the Thematic Mapper Processing System to its full throughput capability.

NASA will continue its research and development role in the applications of data from the new Thematic Mapper sensor to refine and develop new applications for use of remotely sensed data.

Question: There have been discussions of turning remote sensing activities over to a private group. Has NASA been involved in those? What is the current status of those discussions?

Answer: NOAA has the responsibility for exploring and implementing the transition of remote sensing activities to the private sector. NASA has only been involved in those discussions and, therefore, cannot comment on the present status.

GENERAL QUESTIONS

Question: Reports continue to suggest that there will be major reductions in the work at the Lewis Research Center in Cleveland and at the Jet Propulsion Laboratory in Pasadena. Will you provide a list of the activities being dropped or curtailed at each?

Please provide a breakdown of employment at each for 1980, 1981, 1982, and 1983.

What are the principal programs underway at each?

Answer: NASA has altered ceilings in FY 1982 from the budget originally presented to the current plan and in FY 1983 from FY 1982 related to program changes. The major changes are:

Lewis Research Center

FY 1982: Overall change -172
Major programs affected:
- Space Applications -71
- Expendable Launch Vehicles +64
- Energy Technology -188

FY 1983: Overall change -184
Major programs affected:
- Energy Technology -162
- Support positions -34

Jet Propulsion Laboratory

FY 1982: Overall change -227
Major programs affected:
Physics and Astronomy -64
Planetary Exploration -136
Space Research and Technology -24
Energy Technology -25

FY 1983: Overall change -115
Planetary Exploration -184

Endyear Employment

	Lewis Research Center	Jet Propulsion Laboratory
FY 1980	2,835	3,788
FY 1981	2,690	3,792
FY 1982	2,663	3,699
FY 1983	2,479	3,584

Lewis Research Center

The Lewis Research Center (LeRC) was established in 1941 as an aircraft engine research laboratory to meet the immediate needs at that time to develop superior aircraft propulsion systems. Since then, LeRC has developed and constructed many outstanding facilities for testing full-scale aircraft engines and engine components, chemical rocket engines, electric propulsion, space and terrestrial power generation systems and space communication systems. The principal and supporting roles are:

PRINCIPAL:

Aeronautics - Development of an advanced technology base for aircraft propulsion systems within environmental, safety, and energy constraints. Development of a technology base to advance the state-of-the-art in aeronautical propulsion systems and components, including high temperature materials and structures, improved engine efficiency and performance, digital electronic engine controls, computational fluid mechanics, and technical support to military aviation programs.

Launch Vehicle Procurement - Management and operation of the Centaur launch vehicle system for scientific and applications missions for Government and commercial users.

Space Propulsion Systems Research and Technology - Development and maintenance of the space propulsion technology base for both chemical liquid and electric propulsion, including associated structures and materials work.

Space Energy Processes and Systems Research and Technology - Development and maintenance of a technology base for advanced space power generation and conversion.

Advanced Communications Systems Technology - Development of advanced communications technology, including high power microwave and millimeter-wave components and systems oriented towards satellite-based applications. Includes flight experiment development and management.

SUPPORTING:

Environmental Observations - Development of remote sensing technology and systems for applications to water quality in the Great Lakes.

Jet Propulsion Laboratory

The Jet Propulsion Laboratory has been assigned primary responsibility for the conduct of NASA projects concerned with scientific exploration of the planets and interplanetary space. The Laboratory is also assigned the selected automated Earth-orbital projects. Implicit in these assignments is a broad range of engineering, scientific, and management functions devoted to:

1. The conduct of complete spaceflight projects, including overall project management and all phases of project activity beginning with mission design and following with spacecraft design, development, testing, flight operations, and data analysis.

2. The development and operation of the Deep Space Network which provides tracking and data acquisition services for all NASA projects involving missions beyond near-Earth orbits.

3. Continuing scientific investigation, research and analysis.

In more specific terms, Laboratory activities in support of NASA can be categorized as follows:

Planetary Exploration - Since the beginning of the Nation's space activities, a major part of the Jet Propulsion Laboratory effort has been devoted to exploration of the solar system. The Nation's planetary exploration program is concentrated at the Jet Propulsion Laboratory which has an extraordinary record of successes over two decades in the exploration of planets, their satellites, and the interplanetary medium. The scientific return from these projects has been prodigious, and the implications for the future are boundless. In addition to the scientific return of the planetary projects, JPL has made a real contribution to the strength and security of the Nation through important technological advances that have been driven by the exceptionally demanding nature of deep space missions.

In the continuing series of planetary missions, the Jet Propulsion Laboratory has management responsibility for the Voyager mission. The two Voyager spacecraft were launched in 1977 and made close flybys of Jupiter and its major satellites in 1979. In 1980 and 1981 the Voyager spacecraft encountered Saturn. The Voyager planetary encounters obtained exceptionally unique scientific data. Voyager 2 is now on a trajectory to reach Uranus in 1986. In the meantime, Voyager 1 continues to collect and transmit data on the interplanetary space environment as it proceeds out of the solar system.

The Jet Propulsion Laboratory also has project management responsibility for the Galileo mission, which is planned to orbit Jupiter and send an instrumented probe into the planet's atmosphere. The probe will make direct measurements of the physical and chemical properties of the Jovian atmosphere. The orbiter will observe Jupiter and several of its major satellites at close range. JPL is the management center for the total project (orbiter and probe) and is developing the orbiter. The Ames Research Center is responsible for the probe development.

The International Solar Polar Mission (ISPM) is a cooperative effort between NASA and the European Space Agency (ESA). JPL is managing U.S. principal investigator instrument development and data analysis as well as providing mission support to ESA. ESA is developing a spacecraft and European instruments.

The Jet Propulsion Laboratory was a major participant in the Viking project, carrying out, among other assignments, the development of the two orbiters which, with the two Landers, reached Mars during the summer of 1976. The Viking mission operations were repeatedly extended as the spacecraft far out-lived their design lifetimes. One Viking lander and the two Viking orbiters have now completed operations, but Viking Lander 1 continues to function and is programmed to transmit scientific data to Earth at weekly intervals for several more years.

The Jet Propulsion Laboratory has had project management responsibility for all Mariner missions, including design, assembly, integration, and testing of the spacecraft. The two most recently completed missions in the Mariner series are those of Mariner 9, which returned scientific data for nearly a year from an orbit around Mars, and Mariner 10, which gathered data in a close flyby of Venus followed by three separate encounters with Mercury.

Scientific Satellites - Consistent with the role as a center for Earth-orbital spacecraft development, JPL is managing the Infrared Astronomical Satellite (IRAS) project. This is a cooperative mission with the Netherlands and the United Kingdom. The spacecraft is being designed and built in the Netherlands while JPL is responsible for science experiment development and system testing activities now in progress. The launch is scheduled for late 1982.

JPL is also the project manager for an atmospheric science satellite, the Solar Mesosphere Explorer (SME), which was successfully launched from the Western Space and Missle Center on October 6, 1981, into a sun-synchronous polar orbit. The spacecraft module was developed under a JPL contract with private industry, and the five science instruments were competitively procured through the Announcement of Opportunity process.

Space Applications - In support of the NASA Space Applications program, JPL is one of the principal centers for work in oceanographic applications of space technology. The Laboratory also conducts significant activities in upper atmospheric research; in development and implementation of remote sensing techniques for Earth resources observations; and in geodynamics and plate tectonics research.

Research and Analysis - The Jet Propulsion Laboratory maintains an effective program of advanced technical development to provide sound technologies for present and prospective project assignments and to further the general capabilities of NASA. Areas of involvement include spacecraft advanced development, autonomous systems, space power and propulsion systems, electronics, information systems technology, and basic research in such fields as fluid physics, polymer materials, and applied mathematics. The Laboratory participates in scientific experiments on both JPL-managed and non-JPL managed flight projects. This participation includes not only the performance of scientific investigations, but also a significant commitment to the development of scientific instruments for use in space missions. Ground-based research programs are carried out in the planetary sciences, physics and astronomy, and Earth and ocean physics. These activities involve broad collaboration with the scientific and academic communities and with staff members from other NASA field installations.

Spacecraft Operations - The Jet Propulsion Laboratory is responsible for the design, development, maintenance, and operation of NASA's worldwide Deep Space Network (DSN) and a Mission Control and Computing Center. The Deep Space Network tracking stations are located in California, Spain, and Australia. The network supports projects involving flights beyond near-Earth orbits. The Mission Control and Computing Center is located in Pasadena. JPL is also implementing the Network Consolidation program which will collocate the residual Space Tracking and Data Network (STDN) near-Earth tracking stations (after the TDRSS becomes operational and eight STDN stations are closed) with the DSN stations located in California, Spain, and Australia. These consolidated facilities will be managed by JPL and will provide a more efficient, technically advanced and cost effective means of operation by the mid-1980's period.

Question: Last December NASA closed three antennas in its Deep Space Network (DSN). What impact has this had on your operations? Are further reductions anticipated in the DSN program?

Answer: The closure of the Deep Space Network 26-meter subnet has reduced general support levels by 30 percent in terms of total hours of support provided. This has caused some projects to operate at minimum levels for short periods of time. However, in cooperation with the users, the impact has been accommodated.

The Deep Space Network will expand slightly in FY 1985 to accommodate the consolidated workload of both deep space projects and those high earth orbiters which cannot be seen by the Tracking and Data Relay Satellites. This will permit closure of the Spaceflight Tracking and Data Network stations in Australia, Spain, and California.

Question: Earlier this year, CBO estimated that your outlays for space flight would be $55 million more than you anticipated because of greater outlays associated with delivery of the second orbiter and faster spending associated with Shuttle operations. Would you comment on this CBO projection?

Answer: Outlays for orbiters are for progress payments related to all four orbiters and not to delivery dates of each orbiter. Payments follow a pattern based on program funding and the time the funds have been available. We are running somewhat ahead of a straight line projection in the Shuttle program, but the phasing of production activities is such that we should not significantly exceed our estimate for the year. Changes in the tempo of operating costs are reflected in programmed costs. Outlays are projected as a factor thereof. Outlays for Space Flight Operations are actually running somewhat behind a straight line projection of the estimate at this time.

Question: CBO has also estimated that outlays for Space Science will be $39 million more than Administration projections. Do you agree or disagree with the CBO estimates?

Answer: Again, as in the case of Shuttle, outlays for Space Science are running slightly ahead of target for the first half, assuming a straight line pattern; but this is not conclusive with respect to the annual total. Accrued costs, the precursor of outlays, are lagging slightly behind projections. Although outlays may vary from projections by program, our confidence level is high that our total outlays for the appropriation will be within 1 to 2 percent of the projections.

Question: Your FY 1983 budget request includes no funding for the Solar Electric Propulson System (SEPS). Why not?

How much has NASA invested to date in SEPS and what has been accomplished thus far?

What impact would terminating the program at this point have?

Answer: The SEPS development was in support of planned "Small Bodies" solar system exploration missions. When these missions were deferred due to the need for NASA to continue high priority projects and the present financial climate, SEPS was similarly deferred. As a result, no effort is planned for FY 1983.

Six million dollars has been spent to date on SEPS development. Accomplishments include:

Completion of Phase B studies by Lockheed and Boeing
Development of solar array and mast technology
Development of 30 cm. ion propulsion engine

Termination was accomplished by bringing each effort to a state of readiness for a future execution phase.

Question: There has been discussion of closing the Lunar Curatorial Facility for a year or two. What is the current status of this suggestion. How much would closing save?

What would happen to the lunar samples if the facility were closed?

Answer: A reduction in Lunar Curatorial Facility research activities is under consideration in FY 1983 as the Agency develops its FY 1983 Operating Plan. No final decision has been made to date; however, the option is being considered to operate the facility in a preservation mode in FY 1983.

Question: It has been suggested that some of the older space probes might be turned off to save tracking and data costs. Specifically, which probes might be turned off and how much would this save?

Would Voyager 2 be affected? What are future plans for Voyager 2?

Answer: We are considering discontinuing the operation of the Pioneer spacecraft in January 1983 so as to devote available resources to other high priority NASA programs. This could result in a savings of approximately $7.5 million. The Mutch Memorial Station (Viking Lander 1) is still providing science data from the surface of Mars and could be shut down for a yearly savings of about $200,000. The only other deep space probes currently operating are Voyager 1 and Voyage 2 which are exploring the outer solar system beyond Saturn. If we were to shut off Voyager 1, we could save about $500,000 yearly. We could save approximately $17 million yearly if we shut off both Voyager spacecraft.

The FY 1983 budget assumes operations of both Voyager spacecraft, and normal cruise operations are planned for Voyager 2.

Voyager 2 is on a trajectory to encounter Uranus in Janaury 1986 and possibly Neptune in August 1989. Preparations for the Uranus encounter are progressing on schedule.

Question: The FY 1983 budget reflects a decision not to support the Infrared Telescope Facility at Mauna Kea, Hawaii. Why not? How much would this action save you?

Why did you not discuss this directly with the National Science Foundation prior to submission of the FY 1983 budget?

Answer: We are still reviewing the possibility of operating this facility in FY 1983. The FY 1983 budget for this program may require a revision of support capabilities which could result in reduction and/or elimination of several research activities. The required FY 1983 operating budget for the Infrared Telescope Facility is approximately $1.5 million.

An inquiry was made of the National Science Foundation (NSF) Director, Division of Astronomical Sciences, by the NASA Earth and Planetary Exploration Division to determine the possibility of NSF picking up the operation of the Infrared Telescope Facility. Following internal NSF discussions with the NSF Assistant Director for Astronomical, Atmospheric, Earth and Ocean Sciences, the reply was that it would not be possible for the NSF to pick up the Infrared Telescope Facility as they were themselves under severe budget limitations.

Question: I assume that NASA has become the focal point for U.S. participation in UNISPACE. What do you see as the principal issues for the United States and do you expect to be able to develop sound policies in the few months prior to the Vienna meeting?

Answer: NASA is working closely with the State Department Coordinator's Office for UNISPACE '82 to formulate U.S. positions for the conference. This process began in January with the review of the draft conference report. We anticipate that U.S. positions will be fully developed well before UNISPACE convenes.

The purpose of UNISPACE is to assess the present and future state of space technology and applications and their potential benefits to mankind. The primary focus of the United States at the conference will be to emphasize U.S. leadership in the peaceful uses of outer space for the benefit of the world community and those aspects of the U.S. space program of greatest relevance to the purpose of the conference. In addition, the U.S. Delegation will go to UNISPACE prepared to deal with some political issues which are not on the conference agenda but will likely be brought up. These include such issues as regulation of the radio frequency spectrum and geostationary orbit resources and the "militarization" of space.

Question: Several investigations are underway regarding Rockwell International's allegedly charging to the Space Shuttle certain costs attributable to other Air Force programs. Would you give us a status report on these investigations?

Has NASA taken any action to insure that such overcharges against the Shuttle are not still being made and will not be made in the future?

Answer: This issue is currently under review by the United States Department of Justice. Therefore, NASA has no comment at this time.

Question: On page 3 of your statement, you say that you have "fully funded" the "important elements" of the Shuttle program in the FY 1983 request. What have you not fully funded?

Answer: The statement on page 3 was addressed to the Shuttle program to provide assurance that we have included the funding necessary for the activities and program elements described in our budget request. A broad outline of the funding provides for the

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Answer: The statement on page 3 was addressed to the Shuttle program to provide assurance that we have included the funding necessary for the activities and program elements described in our budget request. A broad outline of the funding provides for the completion of design, development, test and evaluation activities in FY 1982, for production efforts to provide a four orbiter fleet, and for initial operational missions leading to a total of 32 flight missions through FY 1985 and the capability to conduct at least 24 missions per year in future years. The funding does not provide for a fifth orbiter or for specific activities to increase the flight rate capability beyond 24 missions per year.

With respect to programs other than Shuttle, no implication of insufficient funding was intended. The funding budgeted meets our estimated reqruiements for the programs and activities described in the budget justifications.

Question: Galileo is the only NASA planetary program underway or planned. You note on page 4 of your statement that several groups are studying the future of the planetary exploration program and that this could lead to "some less expensive program missions for the late 1980's and early 1990's." Could you elaborate on the types of "less expensive missions" you anticipate?

Answer: There are three classes of planetary missions which are currently being studied and which would make up a balanced and vigorous future planetary program:

(1) A program on inner solar system missions of constrained scientific scope and significant commonality based on the modification of aerospace industry production line spacecraft.

(2) A program of outer planet flyby/atmospheric probe missions with a very high degree of commonality based on the Galileo probe which would have Titan, Saturn, Uranus and Neptune as targets.

(3) A program of small body rendezvous missions having significant commonality but requiring some new technology. Costs of these missions would be reduced by emphasizing commonality and more automated mission operations.

Question: In your statement you note that you are now planning to use Spacelab flights to make detailed observations of Halley's Comet. Would you elaborate?

Question: How many private institutions and associations will be affected by the termination of the Technology Transfer program?

What alternative sources are available for those being dropped?

Answer: It is very difficult to state in any definite term the number of private institutions and associations if any which will be affected by the phasing over of Technology Transfer activities to the private sector.

There are at least two alternative sources to the NASA Technology Transfer program which are available to private institutions and associations. One example is the remote sensing services value-added industry, which consists of firms which have entered the business of providing remote sensing analytical services, products and equipment. The growth of the value-added services industry has, however, been slow and has, in the past, been directed primarily toward the large amalgamated markets represented by the mineral and petroleum industry and the foreign markets.

Another alternative source for Technology Transfer services are the universities. With the assistance of NASA's University Applications program, a number of universities have developed remote sensing centers which represent sources of application expertise for the user community.

Question: Your FY 1983 request for Technology Utilization is only $4 million -- half that of the FY 1982 appropriation. What impact will this have on your transfer mechanisms, especially Industrial Applications Centers and Technology Application Centers?

Do you foresee elimination of these?

Answer: The Technology Utilization FY 1983 budget request will support a lower level of technology application activities than the FY 1982 funding level. These activities support jointly-sponsored applications engineering projects that transfer NASA technology to the public sector. In addition, the Industrial Applications Centers and Technology Applications Centers funding levels will be reduced below the FY 1982 levels. However, NASA believes that increased participation by industrial clients in the dissemination center programs will offset the lower level of NASA support.

Question: In your statement, you note that you will increase your efforts to acquire larger user contributions from both the private and public sectors. How will this be done?

If a charge is placed on subscriptions and publications, how will the amount be determined?

Answer: Additional contributions from users in the private sector are anticipated in two ways: (1) through modest increases in fees charged for Technology Transfer services provided through the NASA dissemination center network; and (2) possible conversion of Technology Utilization publications to paid subscription. The latter is dependent on the results of a study to reassess our free distribution policy. Should a charge be placed on publication subscriptions, the subscription price could be determined through a random sample survey of current readers. Subscription fees would, however, have to be weighed against the cost of publication preparation and distribution. We do not anticipate subscription fees for NASA Tech Briefs to exceed $20 per annum. Sample surveys of the current Tech Brief users are planned to indicate retention levels of subscribers at varying annual subscription rates. However, the earliest date that such a conversion would be possible is January 1, 1983.

ARIANE

Question: How many potential Shuttle users have decided instead to book their payloads on Ariane? Why did they choose Ariane over the Shuttle?

Answer: To date, four users who had booked nine payloads on the Shuttle have elected to launch on Ariane and seven users have twelve payloads booked on both Ariane and NASA launch systems (Shuttle and expendable launch vehicles).

Based on our discussions with those users who have opted for Ariane, the principal reasons for their decisions have been: (1) inability to meet early schedule dates on Shuttle; (2) major price benefits over U.S. Delta vehicles; (3) attractive financing terms and conditions offered by Arianespace (through French/German banks, including delay of most user payments until after the launch and the spacecraft in generating revenues); (4) payload capability compared to Delta or Shuttle when using the SSUS-D upper stage (50 to 100 pounds more with Ariane--this allows the user additional weight for onloading propellant for increases in spacecraft lifetime or additional redundant systems or both); (5) the perception that Ariane provides greater assured launch capability than the Shuttle; and (6) government to government trade and possibile political overtones.

Question: What are the cost benefits to using Ariane rather than the Shuttle?

Answer: Regarding the Shuttle, there is currently no overall cost benefit for a user to select Ariane. However, Ariane does provide a cost benefit when compared to Delta. The Shuttle price advantage will continue for launches through FY 1985, at which time we will be raising our Shuttle price for launches in FY 1986 and beyond. It is a reasonable assumption that Arianespace may then price Ariane launches slightly under the equivalent Shuttle price for a payload launch.

Question: In your view, are commercial communications satellites the payload most likely to be lost to Ariane?

Doesn't this mean the Shuttle faces sharp competition for its major commercial customers? What plans do you have to avoid loss of customers to Ariane?

Answer: Yes, U.S. commercial and foreign communications satellites are, at this time, the only payloads which will be launched by Ariane in lieu of the Shuttle; that group will probably continue to be the major focus of Arianespace marketing efforts. However, as NASA is able to demonstrate that the Shuttle is indeed an operational system in terms of schedule assurance and turnaround time, we believe that this--coupled with the unique Shuttle capabilities--will serve to halt any serious defections of commercial customers to Ariane. This is borne out by the fact that the European Space Agency is requiring the L-SAT communications satellite to be both Ariane and Shuttle compatible. We are actively marketing the Shuttle to both foreign and domestic users to assure an awareness in the commercial user community of our capabilities and plans.

ORBITER PRODUCTION

Question: In view of the current traffic model, turnaround time, etc., do you believe you need a fifth orbiter and, if so, when?

Answer: As you know, the President's FY 1983 Budget does not request funding for a fifth orbiter. Because of the very significant cost of a commitment to a fifth orbiter, the Administration believes that it is necessary that any such commitment be undertaken only after thorough reviews have been completed and we have a clearer view of the capabilities of the four orbiter fleet and possible alternative measures to expand STS capacity.

The Administration is well aware of orbiter production planning considerations which suggest that a decision be made in the near term, and we are actively examining the many important factors which weigh on such a decision. We will, of course, continue to keep the Congress advised of any conclusions we reach regarding the need for the Nation to procure a fifth orbiter.

Question: When do you expect to have a decision on a fifth orbiter?

Answer: We have recently asked Rockwell International to submit cost data on various options for a fifth orbiter procurement. Following receipt of this data in June 1982, we will assess it thoroughly before advising both the Administration and Congress of the results. The earliest date for a decision on a fifth oribter will probably be in the fall.

Question: What precisely do you mean by a "block buy concept" for purchase of a fourth and fifth orbiter? Specifically, how much would you anticipate saving on the fifth orbiter as a result of a "block buy"?

Answer: The term "block buy" generally applies to large production runs which result in multiple copies of hardware. This approach provides a more cost effective manufacturing process than producing single items. For the Shuttle, a "block buy concept" refers to a combined procurement of hardware for a fifth orbiter, line replacement units and appropriate spares equipment. We are also examining a separate block buy option that would include procuring the sixth orbiter, OV-106, in addition to OV-105 and a spares package.

Question: If you decide to go ahead with a fifth orbiter, what impact will this have on the FY 1983 budget? Would you expect to handle this through a supplemental or a reprogramming?

Answer: The estimated cost in FY 1983 is dependent upon the timing of the delivery date; for a mid-1987 delivery, approximately $100-150 million would be required in FY 1983. The FY 1983 request currently pending did not include funds for a fifth orbiter, and the authorization of the initiation of full-scale production would have to be requested from the Congress. The nature of the funding request would be determined at the time of a decisin to procure a fifth orbiter.

ENGINE BLOW-UP

Question: Have you identified the cause of the recent main engine blow-up at the Mississippi Laboratory?

Answer: While we have not completed the investigation of the 2013 engine incident, we believe that a bearing in the high pressure fuel pump failed causing a sudden loss of fuel pressure. This caused an oxygen rich shutdown essentially destroying the engine. The reason for the bearing failure is still being explored, but the leading contender is cracking in turbine end of the fuel pump which could cause hot gas to mix with the hydrogen that cools the bearing. This loss of cooling would result in premature bearing failure. The investigation is now focusing on determining what might have caused the cracking.

Question: Can that engine be repaired or will it have to be replaced?

Answer: The engine will have to be replaced.

Question: What is the cost of the accident to NASA and how will it be covered?

Answer: Exact cost of the accident is difficult to determine at this time. We will replace the damaged engine with a flight engine and add another engine in the production flow. This will cost approximately $40 million phased over a three year period period. Additional cost due to possible program impacts are under study. Funding will have to be by reallocation of resources.

PERFORMANCE ENHANCEMENT

Question: Over the years we have heard continuing discussions of the need for thrust augmentation, performance enhancement, etc. What has NASA actually spent to date on efforts to expand payload capacity?

Answer: An estimate of what we will have obligated through FY 1982 is:

	$ in millions
o External tank weight reduction	$27
o Solid rocket motor weight reduction (steel case)	3
o Main engine thrust 109%/109% vs 100%/100%	260
o High performance solid rocket motor	6
o Performance augmentation based on filament wound solid rocket motor case	5
o Performance Augmentation studies	9

Question: What are the principal means of performance enhancement now under consideration?

Answer: Filament wound case segments for the solid rocket motors are the major new performance enhancement. It has now been contractually initiated via a change order on the Thiokol solid rocket motor contract to incorporate the Hercules development effort for the filament wound case. (Note: Hercules was the selected winner in a NASA source evaluation of Thiokol and Hercules proposals.)

Question: Do you expect to be able to meet the DOD payload weight requirements?

Answer: Yes, we expect to meet the DOD payload weight requirements. A Space Shuttle capability evolution table for the Western Test Range is enclosed as Table A.

M1001

OFFICE OF SPACE TRANSPORTATION SYSTEMS

SPACE SHUTTLE CAPABILITY EVOLUTION
WESTERN TEST RANGE (WTR)

MARCH 17, 1982

- OV-103, 104
- 2 MEN/1 DAY
- 275 KM (150 NM) CIRCULAR ORBIT

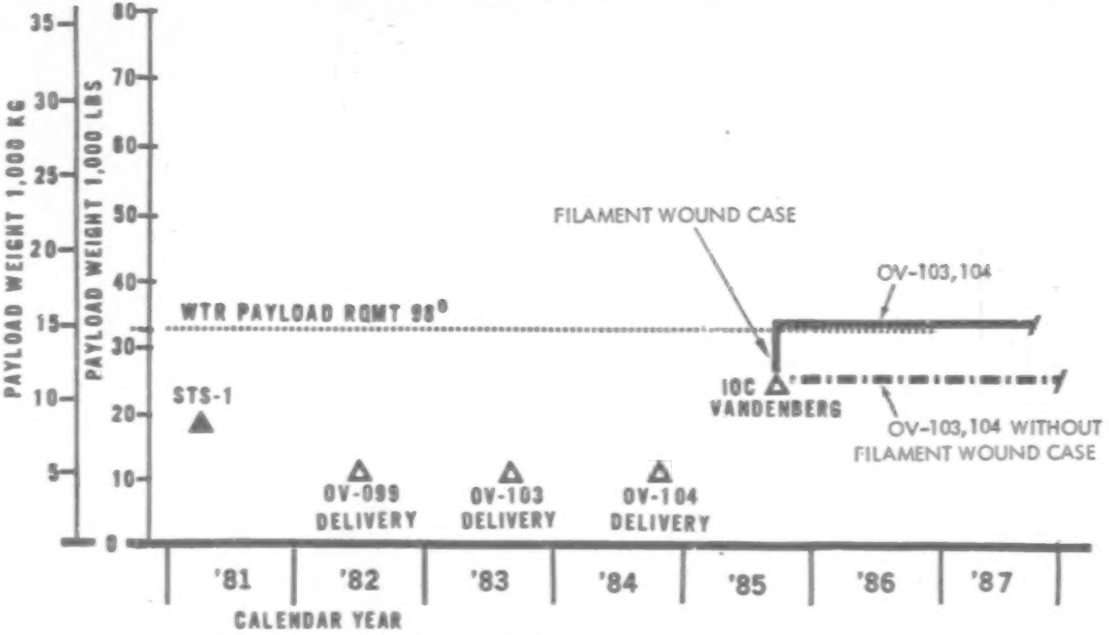


Table A

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

SEARCH FOR EXTRA-TERRESTRIAL INTELLIGENCE

Question: As you know, I have been very critical in the past of NASA's proposed Search for Extra-Terrestrial Intelligence. I understand that you are requesting approximately $2 million for such a program in your FY 1983 budget. Can you tell me if this is correct and also indicate what the total cost of such a program would be?

Answer: The budget plan includes approximately $2 million for the Search for Extra-Terrestrial Intelligence (SETI) in FY 1983. The program is viewed as a research and development activity with the main purpose of evaluating promising data processing approaches to SETI and, at the same time, conducting some preliminary observations by using existing radio-telescopes. Our current planning assumes that approximately $2.5 million per year would be made available for this type of activity for approximately five years.

Question: Frankly, I am very concerned over a sharp increase in the costs of the SETI program once it has been established. Why isn't it sensible to assume that we will pursue costlier and more sophisticated searches if we draw a blank with the SETI program as currently configured?

Answer: At the end of the currently assumed five-year period, NASA may consider proposing to undertake a search of all well-documented stars close to earth, as well as carry out a complete survey of the sky to make sure that we are not missing any unexpectedly strong signals. This search could extend over a period of several years. However, an estimate of the required funding has not yet been made. NASA does not have any plans for pursuing SETI as a large-scale project.

Question: I have been told that there is a great deal of international interest and activity in this area. Can you tell us briefly what sort of projects are being undertaken overseas and indicate what potential, if any, there is for international cooperation, including financial cooperation, in the SETI program?

Answer: There is considerable international interest in SETI. Searches have been carried out in Canada, France, Germany, Holland, and the Soviet Union, which has a vigorous SETI program. The technology available in these countries is, however, inferior to that which the United States is now capable of developing.

To date, international cooperation on SETI has been limited to the exchange of information at international scientific meetings. However, the potential does exist for other forms of cooperation, such as the exchange of data, and joint projects on telescopes located in different countries. NASA will stay abreast of other nations' activities in this field and continue to exchange scientific data.

Question: Are dollars invested in SETI a total loss if we fail to find intelligent life or can we expect by-products from the program?

Answer: The funds invested in SETI should yield valuable byproducts whether or not signals of intelligent origin are detected. The new technology development for the SETI efforts show significant promise for application in many other fields, such as ultrasonic spectroscopy associated with materials analysis, or the analysis of astrophysical data in radioastronomy. An equally promising, but more general application may be the solution to the problem of rapid extraction of information from very large data bases. For example, the computer-aided differential diagnosis of diseases in man and animals might significantly be enhanced by the digital electonic technology.

PURCHASE OF SPARES

Question: The draft report refers to an assessment by Air Force Logistics Command Personnel of allegations that the prices of spares were inflated. Although the assessment reached no general conclusions regarding cost reasonableness, it indicated that bolts that should have cost $1,700 actually cost $3,533 and that locknuts costing $687 could have been procured for $340. What steps are you taking to pursue this matter? Are you considering the recovery of excess costs from the contractor?

Answer: The draft Inspector General Report "concluded that five items may have been overpriced. However, no general conclusions regarding cost reasonableness could be made..." The actual cost of the items could not be determined by inspectors with certainty, so a comparison between Air Force Logistics Command (AFLC) predicted cost and an estimated actual cost was inconclusive. Costs for orbiter spares are allocated in the same way as costs for production. These costs are broken into direct and indirect elements, plus prime contractor fee, and the spares-related share of Rockwell support. Summing these various components can lead to an inaccurate conclusion that provisioned spares cost more than the similar hardware built for use in production vehicles. We believe that the costs of provisioned spares are comparable to the cost of like production components. Nevertheless, because of the large expenditures on spares required in the near-term, NASA views potential overpricing of hardware with concern, and the NASA Inspector General will investigate this matter further. With regard to the specific hardware items mentioned, no recovery action will be started until the further investigation by the Inspector General has shown that the original inspection estimates were correct and overcharging actually occurred. NASA has requested that Rockwell improve its cost estimating techniques and provide more current and accurate "should cost" data at the time of procurement go-ahead.

Question: The draft report states on page 10: "The Orbiter Project Office should consider procuring operational spares directly from commercial vendors rather than having the prime contractor procure these spares. The prime contractor's fee for FY 1982 through FY 1985 could be reduced by about $23 million if this procurement method could be adopted." Are you exploring this suggestion and, if so, when do you expect to make a final decision?

Answer: Direct procurement of spares from the original equipment manufacturer (OEM) is considered to be very desirable. There are several factors that affect when this can be done: (1) As long as production units are still required, the prime contractor is the logical manager for both spares and production buys. This avoids several Government agencies or organizations being in competition with each other. (2) There are significant configuration management, purchasing support, and technical integrating capabilities normally provided by the prime contractor which would have to be performed in-house by the Government in a direct-to-OEM mode and those offsetting costs must be considered. (3) While the Shuttle program is in the process of maturing, in particular in hardware and software configuration, we have maintained current contractor responsibilities for an interim period. We intend to move to a direct purchase mode for major cost items as soon as it is in the Government's best interest.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until May 11 at 10 a.m. when we will receive testimony from the National Institute of Building Sciences, Federal Home Loan Bank Board, and National Credit Union Administration.

[Whereupon, at 11:45 a.m. Wednesday, May 5, the subcommittee was recessed, to reconvene at 10 a.m. Tuesday, May 11.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MAY 11, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Paul Laxalt presiding.

Present: Senator Laxalt.

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF JASPER S. HAWKINS, CHAIRMAN OF THE BOARD

ACCOMPANIED BY:
GENE C. BREWER, RESIDENT
ROBERT M. DILLON, VICE PRESIDENT

SUBCOMMITTEE PROCEDURE

Senator LAXALT. The subcommittee will come to order.

Today we will be hearing from the National Institute of Building Sciences, the Federal Home Loan Bank Board, and the National Credit Union Administration.

Because we will be covering so much territory this morning, I would ask the witnesses be as brief as possible in answering the questions and expand where necessary for the record.

Senator Garn is sorry he could not be here this morning, but he does have a series of questions for the record.

Would the representatives of the National Institute of Building Sciences please be seated at the witness table.

BUDGET REQUEST

I want to welcome Messrs. Hawkins and Brewer and your associates. I am pleased to have you present your testimony before us today. Last year, based on this committee's recommendation, the Congress provided $1.44 million for NIBS. To date, the Institute will have received about $4.5 million for the first 5 years of its operation.

The basic mission of the Institute, as we all know, is to foster the development of a more rational housing and building regulatory system throughout the Nation and to create the means for more rapid assimilation of beneficial technologies within the housing and building community. In particular, the Institute is charged with developing and maintaining nationally recognized performance standards suitable for adoption by building regulating jurisdictions and agencies. To carry out its responsibilities, the Institute has established a council consisting of representatives of private trade, professional, labor organizations, code and testing bodies, public regulatory agencies, and consumer groups.

Although you are not requesting any appropriated funds in fiscal year 1983, the committee continues to maintain a strong interest in your activities.

PREPARED STATEMENT

I see that you have a seven-page opening statement. If you could please summarize that statement, I will include the entire statement in the record.

[The statement follows:]

STATEMENT OF JASPER HAWKINS, CHAIRMAN OF THE BOARD, NATIONAL INSTITUTE OF BUILDING SCIENCES

My name is Jasper Hawkins and I am Chairman of the Board of the National Institute of Building Sciences. With me today is Gene C. Brewer, President of the Institute, and Robert M. Dillon, Vice President.

We greatly appreciate this opportunity to appear before the Subcommittee. Even though we are not seeking an appropriation for fiscal year 1983, we would like to report on our activities, make several recommendations as is provided for in the Institute's authorizing legislation, and ask for your help in several key areas.

As you know, the Institute received a final appropriation of $1,440,000 for the current fiscal year. As was the intent of the Congress, we are husbanding these funds so that they can provide for a smooth transition to a fully self-sustaining status over the next 2½ years. As you also know, last year and the current year have been extremely difficult for the housing and building community. In fact, the housing industry is undergoing its most protracted decline since World War II. The Institute has not been immune from the effects of this economic downturn nor from the feelings of uncertainty that have been engendered. Nevertheless, we are pressing forward on our basic mission task, even though this must be done at a much reduced pace.

In fiscal year 1981, the Institute received an appropriation of $613,000 and had other income of approximately $3,138,000 for a total of $3,757,000. We do not expect our income to begin to approach this level in the current fiscal year. The details of the financial performance of the Institute during the 4 years since its initial funding are detailed in our Annual Report to the President of the United States for 1981. Although the President has officially transmitted a copy of that report to the Congress, we would like to present each of you with a copy at this time.

In our report you will find considerable detail of the Institute's various programs and activities. Included is a citation of the nineteen regulatory reform recommendations made by the Institute during calendar year 1981. Each recommendation calls for a specific action that can be taken by the Federal Government--in some cases by the Administration and in others by the Congress--to reduce the burdensome impact of regulations and regulatory procedures on the housing, building and land development community. Taken together, these recommendations call for a turning away from the paralyzing course of government-private sector confrontation and toward one of mutual support. You will recall that in last year's testimony our then Chairman, Joseph Newman, quoting from our 1980 Report to the President, stated:

> "It is the view of the Institute that if the housing and building consumer is to receive more value for dollars expended, there must be an alternative to the historical approach to problem solving between and among the many diverse public and private elements of the building community that all too frequently results in mandatory solutions."

Mr. Newman went on to point out that the Institute had announced and initiated a high-intensity effort to develop specific recommendations for improvement in the building regulatory environment. This the Institute did during calendar year 1981, setting forth its recommendations in three separate reports--one issued on April 15, one on August 15, and one on December 15, 1981.

From the outset, members of the Congress, President Reagan, and Vice President Bush as Chairman of the President's Task Force on Regulatory Relief, have given encouragement to the program. Indeed, in a telegram read to the first Task Force meeting, the President stated:

> "This Administration applauds your goals, and is anxious to use your recommendations to remove existing constraints in the nation's housing industry."

Further, following issuance of each of these three reports, the Vice President personally received a delegation from the Institute to make the presentation to the Administration. Copies also were provided to key committees of the Congress.

The housing, building and land development community enthusiastically supported and contributed to this effort, with more than 140 individuals from both the public and private sectors volunteering for each of the three task forces. However, lest this enthusiasm for bringing about constructive change be dashed, it is essential that both Congress and the Administration not falter in their determination to follow through.

Although we can report that a number of the Institute's recommendations have been acted upon by the Administration--most notably the recommendation for an orderly withdrawal of HUD's Minimum Property Standards in favor of State and/or local codes based on, or equivalent to, improved nationally recognized model building codes--many have not been. We are particularly disappointed that certain agencies have seen fit to not only ignore the Institute's recommendations but in some cases take a contrary position. For example, despite a recommendation that the Congress remove the authority of the Architectural and Transportation Barriers Compliance Board to develop and promulgate guidelines for building accessibility by the handicapped and restrict the Board to providing an information service to those involved in updating existing nationally recognized voluntary accessibility standards, and despite direct appeals to the Board not to issue such guidelines on the grounds that they would only contribute to a further proliferation of regulations, the Board acted only last week to do precisely what the Institute recommended it not do. It proceeded to issue its guidelines. The Board like so many other Federal agencies with rulemaking authority, simply state their authority and proceed. Because so many Federal agencies--each with a special constituency or special interest in a specific aspect of housing, building or land development--have rulemaking authority and invoke it, the housing and building community reels under the cumulative impact. To correct this situation is the principal reason that the Institute was authorized by the Congress. But we must report that the bureaucracy is, in the main, simply not disposed to cooperate with the Institute even though they have been requested by the Congress to do so.

The Congress itself has not as yet begun to consider the Institute's recommendations for actions it can take to modify specific regulatory impacts and effect fundamental changes that would lessen the stultifying legalistic approach to problem solving--most notably the rulemaking process.

The two salient points that immerged from our year-long program on regulatory reform are that the voluntary standards systems in America must be given the opportunity to work before the government seeks to regulate, and that a new relationship between the public and private sectors must be forged in the area of research and technology development and utilization if our nation is to avoid the debilitating effects of what has been an accelerating trend toward preemptive Federal Government action.

What better time than now, when serious doubts are being raised as to our ability to sustain the American standard of living, to find ways in which the public and private sectors can better work together to seek, find, and apply innovative and cost-beneficial solutions to shared concerns? What better time than now to make the bureaucracy more responsive to the need for cooperation?

A case in point is the response of the agencies to the action taken by your Committee to have included in the 1982 HUD and Independent Agencies Appropriations Act, expectations that HUD, EPA, FEMA, and VA would enter into contractual relations with the Institute to conduct specific studies.

HUD was asked by the Congress to contract with the Institute to provide an analysis of the current Federal Mobile Home Construction and Safety Standards and to make recommendations for additional research needed to improve the scientific and technical basis of the standards, and to create a system to annually review and provide input on the following year's HUD research agenda. Although conversations have been held, no specific action has been taken. The Department also has not responded to direct requests by the Institute. For example, the Institute's authorizing legislation clearly states that one of the Institute's functions and responsibilities shall be the development of a system for the evaluation and prequalification of existing and new technology. Working through the broad representation on its Consultative Council, the Institute has developed a proposal to examine the present fragmented system and to make recommendations flowing out of that examination. HUD has been formally asked to help support this effort, but again, although several discussions have taken place, there has been no agreement on proceeding. On a positive note, HUD has contracted with the Institute for an additional rehabilitation guideline and did provide partial support for a housing technology conference--held just two weeks ago--which most observers felt was successful.

EPA was asked by the Congress to contract with the Institute to conduct a study of indoor air quality as it relates to construction design. EPA declares that it has neither the mandate nor the funds.

FEMA was asked by the Congress to contract with the Institute to conduct studies on performance criteria for fire safe building design and to determine the adequacy of current civil defense shelter specifications. Although FEMA is working with the Institute on earthquake hazard reduction and has talked to the Institute in conjunction with its flood insurance program, discussions with FEMA representatives have not as yet resulted in any serious motion on either the fire or shelter studies.

VA is the only agency that has been thoroughly forthcoming and responsive to the Congress' expectation--the VA having begun contract negotiations with the Institute for the requested study to establish energy-efficient options for building design and operation as well as for other work.

Also, CPSC has been working with the Institute to find ways in which CPSC and the Institute can cooperate in areas of mutual interest.

Mr. Chairman, we do not wish to sound overly negative because progress is being made. However, we would be less than candid if we did not report that the tasks the Congress has set out for the Institute have been immensely difficult to address with so little cooperation and support from the very agencies of government the Congress expected would be most helpful--whether this help is in the form of giving serious attention to our recommendations or joining with us in cooperative public-private endeavors.

The Institute has made very real strides in bringing the various public and private elements of the building community together to debate their differences and to reach reasonable consensus on courses of action that will best serve the national interest. What is needed now is a sincere willingness on the part of the agencies to become a party to that process, and action by the Congress to do whatever is necessary to make this not only possible but a reality.

We sincerely believe that the Institute has made a difference and can become an increasing force for fostering cooperative effort and creating a new innovative spirit and drive in the housing and building community. It is time consuming and counterproductive for the Institute to be in the position of fighting the power of the federal bureaucracy in order to carry out its mission. To maximize its effectiveness, the Institute needs the full support of the agencies. The future of the housing and building community and thus the nation depends as never before on our ability to concentrate our talents and energies on finding new and better ways to solve problems and realize opportunities--and on eliminating needless public-private frictions. We ask your help in enabling us to do our part. We can assure you of our commitment.

Thank you Mr. Chairman.

INTRODUCTION OF ASSOCIATES

Senator LAXALT. Thank you. Please go ahead.

Mr. HAWKINS. Thank you, Mr. Chairman.

My name is Jasper Hawkins and I am Chairman of the Board of the National Institute of Building Sciences. With me today are Gene Brewer, President of the Institute, and Bob Dillon, Vice President.

We sincerely appreciate this opportunity to appear before the subcommittee even though we are not seeking an appropriation this year. We hope in the future it will be possible to be asked back again. We feel it is that important to the future of the Institute.

Senator LAXALT. I am certain that Senator Garn will very happily accommodate you.

REPORT ON ACTIVITIES

Mr. HAWKINS. Today we would like to report on our activities and make recommendations as provided for in the Institute's authorizing legislation and to ask for your help in several key areas.

As you know, last year and the current year have been very difficult for the housing and building industry. The housing industry in particular is undergoing its most protracted decline since World War II. The Institute has not been immune from the effects of this economic downturn nor from the feelings of uncertainty that have been engendered. Nevertheless, we are pressing forward on our basic mission tasks, even though this must be done at a much reduced pace.

The details of the financial performance of the Institute during the 4 years since its initial funding are detailed in our annual report to the President of the United States. Although the President has officially transmitted a copy of that report to the Congress, we would like to present each of you a copy at this time.

In our report you will find considerable detail on the Institute's various programs and activities. Included is a citation of the 19 regulatory reform recommendations made by the Institute during calendar year 1981. This is what what we would like to speak to today. Each of these recommendations calls for a specific action that can be taken by the Federal Government—in some cases by the administration and in other cases by the Congress—to reduce the burdensome impact of regulations and regulatory procedures on the housing, building, and land development community.

REGULATORY REFORMS FOR BUILDING INDUSTRY

Last year, Joseph Newman, our Chairman at the time, stated that the Institute had announced and instituted a high-intensity effort to develop specific recommendations for improvement in the building regulatory environment. This the Institute did during calendar year 1981, setting forth the aforementioned 19 recommendations in three separate reports.

From the outset, Members of Congress, President Reagan, and Vice President Bush as Chairman of the President's Task Force on Regulatory Relief, gave encouragement to the program. Indeed, in a telegram read to the first task force meeting, the President stated, "This administration applauds your goals and is anxious to use your recommendations to remove existing constraints in the Nation's housing industry."

Although we can report that a number of the Institute's recommendations have been acted upon by the administration, most notably the recommendation for an orderly withdrawal of HUD's minimum property standards, many have not been. We are particularly disappointed that certain agencies have seen fit to not only ignore the Institute's recommendations, but, in some cases, to take a contrary position.

Because so many Federal agencies, each with a special constituency or special interest in a specific aspect of housing, building, or land development, have rulemaking authority and invoke it, the housing and building community reels under the cumulative impact. To correct this situation is the principal reason the Institute was authorized by the Congress. But we must report that the bureacracy is, in the main, simply not disposed to cooperate with the Institute even though they have been requested by the Congress to do so.

INPUT BY OTHER FEDERAL AGENCIES

And Congress itself has not as yet begun to consider the Institute's recommendations for actions it can take to modify specific regulatory impacts and effect fundamental changes that would lessen the legalistic approach to problem solving—most notably the rulemaking process.

Mr. Chairman, we do not wish to sound overly negative because progress is being made. However, we would be less than candid if we did not report that the tasks the Congress set out for the Institute have been immensely difficult to address with so little cooperation and support from the very agencies of Government that the Congress expected would be most helpful, whether this help is in the form of giving serious attention to our recommendations or joining with us in cooperative public-private endeavors.

The Institute has made very real strides in bringing the various public and private elements of the building community together to debate their differences and reach reasonable consensus on the courses of action that will best serve the national interest.

We sincerely believe that the Institute has made a difference and can become an increasing force for fostering cooperative effort and creating a new innovative spirit and drive in the housing and building community. To maximize its effectiveness, however, the Institute needs the full support of the agencies. The future of the housing and building community, and thus the Nation, depends as never before on our ability to concentrate our talents and energies on finding new and better ways to solve problems and realize opportunities and on eliminating needless public-private friction. We ask your help in enabling us to do our part. We can assure you of our commitment.

Thank you, Mr. Chairman.

Senator LAXALT. Thank you kindly.

ACCEPTANCE OF INSTITUTE'S RECOMMENDATIONS

Mr. Hawkins, in your opening statement you note while some of your recommendations have been accepted, many have not been. In your opinion, what are the most significant recommendations that have not been accepted and what savings could be achieved if these recommendations were implemented?

Mr. HAWKINS. We can cite one as an example, and that is the recent action by the Architectural and Transportation Barriers Compliance Board. Our recommendation has been for the Board not to promulgate its proposed building accessibility guidelines. We felt it should be apparent to the Board, that with a nationally recognized voluntary standard already in place, promulgation of differing mandatory guidelines for Federal agencies and their promotion for use elsewhere could not help but create difficulties in the field. In this case, it is not the more stringent requirements the Board is proposing but the compulsion of the Board to promulgate such guidelines rather than work through the voluntary standards process.

It is difficult to estimate the dollars savings that would accrue from eliminating such regulatory overlaps. But, without question, there are savings to the design professions and to the construction industry, and thus to the consumer.

Senator LAXALT. Section 809(9)(3) of your authorization provides that every department, agency, and establishment of the Federal Government having responsibility for buildings, construction, or related programs is "authorized and encouraged to receive authorization and appropriations for grants to the Institute for its general support."

COOPERATION BY OTHER FEDERAL AGENCIES WITH NIBS

Now, in keeping with this congressional intent, and in order to assure that the Institute continue without direct appropriations, the Senate directed EPA, FEMA, HUD, and VA to support NIBS on a number of specific projects. However, in your opening statement, you note that the bureaucracy is, in the main, simply not disposed to cooperate with the Institute. Would you mind expanding on this?

Mr. HAWKINS. Yes, Mr. Chairman.

HUD, for example, was asked by the Congress to contract with the Institute to provide an analysis of the current Federal mobile home construction and safety standards. We were to make recommendations for additional research, as needed, to improve the technical basis of the standards. Although conversations have been held, no specific action has been taken to date by HUD. Another example—the Institute's authorizing legislation clearly states that one of the Institute's principal functions and responsibilities shall be the development of a system for the evaluation and prequalification of existing and new building technology. Working through the broad representation on its Consultative Council, the Institute developed a proposal to examine the present fragmented system and to make recommendations flowing out of that examination. HUD was formally asked to help support this effort, but, although several discussions have taken place, there has yet been no agreement on how to proceed.

On a positive note, however, HUD did contract with the Institute for a housing technology conference which was held just 2 weeks ago. Most observers who attended felt the sessions were very helpful.

In the case of EPA, EPA was asked by Congress to contract with the Institute to conduct a study of indoor air quality as it relates to construction design. EPA declares that it has neither the mandate nor the funds for that activity.

FEMA was asked by the Congress to contract with the Institute to conduct studies on performance criteria for fire safe building design and to determine the adequacy of current civil defense shelter specs. Although FEMA is working with the Institute on earthquake hazard reduction and has talked to the Institute in conjunction with the flood insurance program, discussions with FEMA representatives have not as yet resulted in any serious motion on either the fire or shelter studies. I can, however, report that just before coming to the hearing this morning, we had a phone call relative to the fire study, and it looks like there will be a meeting with FEMA representatives on this at the end of this month.

VA is the only agency that has been thoroughly forthcoming and responsive to Congress expectation, the VA having begun contract negotiations with the Institute for the requested study on energy-efficient options for building design and operation. However, we now understand this energy project is stalled in the Administrator's office.

We also would like to mention that the CPSC has been working with the Institute to find ways in which it and the Institute can cooperate in areas of mutual interest.

Senator LAXALT. I might say at this point, and maybe that is the reason why you have had the recent contact, last week the staff of this subcommittee contacted each of these agencies and stressed that the subcommittee expected the agency to comply with the directions contained in our fiscal year 1982 report. It is what you call a gentle nudge.

Mr. HAWKINS. Apparently it is working.

CONGRESS CONSIDERATION OF RECOMMENDATIONS BY NIBS

Senator LAXALT. You also state, Mr. Hawkins, that the Congress itself has not yet begun to consider the Institute's recommendations. What legislative changes do you believe are most important at this time?

Mr. HAWKINS. We feel that Congress could be very helpful—for example, on the matter I mentioned earlier regarding the Architectural and Transportation Barriers Compliance Board—by taking legislative action to remove the Board's authority to develop and promulgate guidelines. In a similar vein, the Institute recommended that the Congress eliminate the legislative requirements for promulgation of building energy performance standards by DOE; preclude the Federal Trade Commission from promulgating trade regulation rules that affect the voluntary building standards and model code processes; legislatively remove the CPSC's authority to regulate products that come under the purview of the building code, and restrict the Commission's authority regarding other building products to promoting the development and use of voluntary standards.

The Federal Trade Commission proceedings on voluntary standards, alone cost the Government and industry millions of dollars. We would like to see the Congress take action similar to OMB in its April 20, 1982, revision to Circular A–119, making clear to the agencies that they are expected to use nationally recognized voluntary standards and participate in the voluntary standards process without precondition or efforts to dominate or control that process.

Finally, as I pointed out in my opening statement, the Institute made a number of recommendations designed to help create a more constructive public-private relationship, especially in the area of problem solving, and we would hope the Congress would help in their implementation, principally in working to remove the debilitating adversarial approach of rulemaking.

Senator LAXALT. Thank you.

PRESIDENT'S COMMISSION ON HOUSING

On April 30, 1982, the President's Commission on Housing issued its recommendations. I know that NIBS was quite involved in the Commission's deliberations. In your view, do the recommendations contained in the report represent a sound policy for the future?

Mr. HAWKINS. Because the report is so recent, our Board has not as yet had an opportunity to assess the full range of the Commission's recommendations, particularly those recommendations that are within the purview of the Institute's mandate. However, I can say this, a number of the Institute's recommendations on regulatory reform have been adopted by the Commission and are contained in the Commission's final report to the President. Those dealing with HUD's minimum property standards, the mobile home construction and safety standards, the Architectural and Transportation Barriers Compliance Board guidelines, and reversing the burden of proof on rulemaking, are examples. I believe the Institute will find the regulatory recommendations in the Commission's report quite compatible with its own philosophy and thus representing sound policy for the future. However, as I was a member of the Commission, it would seem best for me to defer giving you a specific answer until the full Board of the Institute has had an opportunity to study the report. If you wish, I will be glad to put that matter before the Board at its meeting on May 19.

Senator LAXALT. I think it would be appropriate if you would include this issue as part of the agenda for the meeting.

Could you report back to us on what NIBS considers the most important recommendations contained in the report?

STUDY EFFORTS—RISK/COST/BENEFIT ANALYSIS

One of the studies that the Institute had underway during our hearings last year involved the identification and testing of a method for analyzing the risks, costs, and benefits of existing as well as proposed regulations and codes. At that time you told us that you expected this study by December 1981. Could you please describe the status of this study effort and when such methods might be ready for application to specific regulations and codes?

Mr. HAWKINS. As might be expected in such a complex area as benefit-cost and risk analysis, the task of developing and introducing such a technique has turned out to be immensely difficult. Nevertheless, we expect our report on this subject to be ready for release sometime in July of this year.

Essentially, what we have found is that multiple analytical methods will be necessary to accommodate various regulatory interests and, more importantly, that reliable and compatible data collection, storage, and retrieval systems must be created. They do not now exist. In a pilot study of sprinkler regulations in Ocean City, Md., it was found that historical data on building types, construction, equipment, fire experience, life loss and injury, installation and maintenance costs, and similar factors simply were not adequate to permit an accurate assessment utilizing otherwise sound mathematical techniques. This is a problem that must be overcome. However, it is likely that analytical models and their application will be recommended together with a great deal of caution in the way the results are used until the data base becomes far more reliable than it is today.

REGULATORY REFORM ACT

Senator LAXALT. As you all know, included in the Regulatory Reform Act which was adopted by the Senate is the provision requiring regulatory analysis on major rules. This really is essentially the process you have been talking about. While I recognize that it is one thing to be talking about cost benefits and alternatives, it is probably quite another when you come to the point of having to apply them. You have certainly spoken directly to that point. I would think once we get this act through the Congress—and I would hope that would be this year, we are diligently working on the House at this point to get that done—that whatever you are able to arrive at in your recommendations could be greatly helpful in the implementation process, which I consider to be more important, perhaps more frustrating and difficult, than what we are attempting with the legislation itself. So I think this is a very important activity, Mr. Hawkins.

Mr. HAWKINS. We will make sure you get that report when it is available.

REVIEWS OF ISSUES AFFECTING HOUSING INDUSTRY

Senator LAXALT. Lastly, one of the recommendations in your report entitled, "Recommendations for Change," was that Federal handbooks, guidelines, and forms should be prepared with formal input by elements of the affected housing, building, and land development community and should be reviewed and revised on a regular basis. What benefits would be gained by adopting such an approach and are any agencies now asking for such input?

Mr. HAWKINS. First, it is important to recognize that Federal handbooks, guidelines, and forms intended primarily for internal administrative use, take on the force of regulations when they are relied upon to decide whether or not a submission will or will not be deemed acceptable. Many of these documents—handbooks and guidelines, that is—are not readily available to the public. This is particularly critical when the person dealing with the agency does not know of their existence until after much time and work has already been devoted to making a submission. In addition, the content of Government handbooks, guidelines, and forms often are or become outdated when compared to similar documents and practices in the private sector. This leads to needless misunderstandings and a failure to use the best and most current knowledge available in both the public and private sectors. It is our feeling this is a splendid area to develop better public-private working relationships.

No agency yet has asked the Institute to provide such input and we are not aware of any requests that any other institutions have had on this subject.

SUBMITTED QUESTIONS

Senator LAXALT. Thank you very kindly, gentlemen. The remaining committee questions I will submit to you for response in the record. Do any of you have anything that you would like to offer in addition to what has already been discussed?

Mr. HAWKINS. No, nothing in addition except to again thank you very much for the opportunity to appear. As I said at the opening, it is very important to the Institute to have this opportunity.

Senator LAXALT. We are delighted to have you. I commend you for a job well done, Mr. Hawkins, Mr. Brewer, Mr. Dillon. Thank you very kindly.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FEDERAL REGULATORY PROBLEMS

Question: Last year you noted that during FY 82 you intended to put in place a program to continuously monitor new initiatives in the area of Federal regulations that impact the costs and value of housing and building.

What kind of monitoring have you undertaken in FY 82 and do you intend to prepare formal reports or papers in each of these areas?

Answer: With the reduced funding available, we have not as yet been able to initiate our proposed Federal regulatory monitoring system. On September 30, 1981, the Institute published its report "Federal Regulatory Programs that Affect the Building Process." This report documented such Federal regulations in the 160 volumes and 50 titles of the Code of Federal Regulations. Some 100 Federal programs were identified as impacting some aspect of the building process. It was our hope that we would be able to continue to monitor these and new Federal regulatory programs and issue updates. It is unfortunate that we will lose much of the momentum that was generated in this landmark effort, but we will have to proceed as best we can with the limited resources available. Our long term objective was to have a computerized system in place that would enable anyone to ascertain those regulations that impact a specific proposed project. In addition, the monitoring system would determine areas of overlap, duplication and conflict as well as identify regulations that are out-of-date or otherwise in need of elimination or modification.

We have provided the Vice President with a copy of our report and he has made it available to the staff director of the Task Force on Regulatory Relief. We will be pleased to provide you with a copy, and any other member of your Subcommittee that may be interested.

Based on the data collected, the Institute also analyzed the multitude of Federal regulations impacting building in order to pinpoint instances of overlap, duplication, and conflict which adversely affect the building process. Alternative approaches to reducing or eliminating such problems will be presented in the near future. Similar issues affecting regulatory programs at State and local levels of government were considered insofar as possible. The report of the Institute on this project will be issued during the summer of 1982 and a copy will be provided to the Subcommittee as soon as it is ready.

CONSULTATIVE COUNCIL

Question: Last year you estimated a total of $169,000 in fee income from dues and other membership activities of the Council in FY 82. You qualified this statement, however, by noting that these sums might be realized only if there is a recovery from the current recession in the building industry.

What is your experience to date with fees?

Answer: Thus far in FY 1982, $66,000 has been received in fees.

Question: What do you expect for the remainder of FY 82?

Answer: Currently we anticipate on the order of $132,000 total in membership fee income for the Consultative Council in FY 82. There currently are 343 organization members with 183 additional representatives from these organizations, and 227 individual members. Given the severity of the recession that has hit the housing and building community, the Council membership has held up quite well. Also, new chapters are being organized and existing ones are being assisted in dealing with State and local regulatory issues--all of which bodes well for future membership in the Council.

SUNSET

Question: In the January edition of your Building Science Newsletter, you suggested that the Federal government should develop and administer a uniform procedure for the "sunset" review of Federal rules, regulations and implementing documents affecting housing, building and land development.

Do you see any movement in this direction and what could be done to implement this proposal?

Answer: Beyond the current regulatory relief program of the Administration, we are not aware of any movement to implement a uniform and systematic procedure for sunset review of Federal rules and regulations as the Institute recommended in its Phase III Report. It was our recommendation that this be done by OMB in concert with the building community. If the Executive Branch does not implement such a procedure and bring forth recommendations to the Congress for any needed changes in law, then perhaps the Congress itself should establish a uniform sunset provision causing all Federal rules, regulations, and implementing procedures to be terminated unless reauthorized.

COORDINATION WITH FEDERAL AGENCIES

Question: What activities of your Building Seismic Safety Council are being supported by FEMA at the current time?

Answer: At the present time, FEMA is not providing any support for the BSSC (Building Seismic Safety Council); however, we expect this to change very shortly.

Question: What further support do you anticipate?

Answer: In the past FEMA has provided partial financial support for BSSC start-up costs, and specific support for the work of BSSC in furthering the development and implementation of improved seismic safety provisions for buildings. It is in connection with this latter part of the earthquake hazard reduction program that the Institute is looking to FEMA for continued financial support. The proposed seismic safety provisions have been thoroughly reviewed and adjusted, and now need to be tested for technical adequacy and economic viability by their use in trial building designs. There has been a year and a half delay in this work but FEMA is now processing a contract with the Institute in the amount of $600,000 to enable the trial design work to begin in this fiscal year. It is anticipated that perhaps an additional $400,000 will be provided in fiscal year 1983 to complete this work. Once the trial designs have been completed, a final set of seismic safety provisions will be recommended, and work will proceed to seek their implementation by regulatory jurisdictions throughout the country.

BOARD OF DIRECTORS - APPOINTMENTS

Question: What is the status of your Board of Directors--are all the positions filled?

Answer: As you know, the Congress has amended the Institute's authorizing legislation so that beginning with the 1982 fiscal year, the President of the United States will have the authority to appoint 2 of the Institute's 21 authorized directors each year. It is our understanding that President Reagan has 2 appointments pending before the Banking Committee at the present time.

The then sitting Board of Directors of the Institute held its first election of directors last year, so the new Board was seated with the beginning of the 1982 fiscal year. Therefore, when the President's 2 appointments are confirmed by the Senate, the Board will be at its full strength of 21 for the 1982 fiscal year.

The Institute's authorizing legislation provides for a Board having a minimum of 15 and a maximum of 21 members. By electing (or reelecting) 5 members each year, the Board will always be at least at its legal minimum of 15, and if the Presidential appointments also are made each year, three, full year-classes of 7 members each will be maintained for the maximum of 21.

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF RICHARD T. PRATT, CHAIRMAN

ACCOMPANIED BY:

CHARLOTTE A. CHAMBERLAIN, DIRECTOR, OFFICE OF POLICY AND ECONOMIC RESEARCH

DAVID A. VAUGHAN, JR., BUDGET OFFICER

JOHN S. BUCHANAN, EXECUTIVE STAFF DIRECTOR

THOMAS P. VARTANIAN, GENERAL COUNSEL

D. JAMES CROFT, DIRECTOR, OFFICE OF EXAMINATION AND SUPERVISION

WILLIAM J. SCHILLING, SPECIAL ASSISTANT TO THE DIRECTOR OF THE OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

BUDGET REQUEST

Senator LAXALT. We will proceed now to the Federal Home Loan Bank Board.

Mr. Pratt, thank you all for coming.

The Federal Home Loan Bank Board was established by the Federal Home Loan Bank Act of 1932 to provide a permanent credit reserve for thrift and home-financing institutions through the creation of regional Federal Home Loan Banks. The Homeowners' Loan Act, approved in 1933, gave authority to the Board to charter and supervise local mutual institutions to be known as Federal savings and loan associations. In 1934, the Federal Savings and Loan Insurance Corporation was created and placed under the direction and management of the Federal Home Loan Bank Board.

The Federal Home Loan Mortgage Corporation was established by the Emergency Home Financing Act of 1970. The function of the Corporation is to provide a secondary market for residential mortgages.

At the end of fiscal year 1981, member savings and loan associations held about $512.2 billion, or 43 percent, of all home mortgages, and member institutions serve around 96 million people through their 3,958 member institutions.

The Board receives no appropriated funds from the U.S. Treasury; rather, the Congress provides a limitation on the administrative and nonadministrative expenses of the Board and the administrative expenses of the FSLIC.

This year, the Board is requesting $25,480,000 and $40,680,000 for administrative and nonadministrative expenses.

PREPARED STATEMENT

Mr. Pratt, if you would like to present a summary of your statement at this time, we will place your entire 20-page statement in the record, with great thanks and appreciation of the subcommittee.

[The statement follows:]

STATEMENT OF RICHARD T. PRATT, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

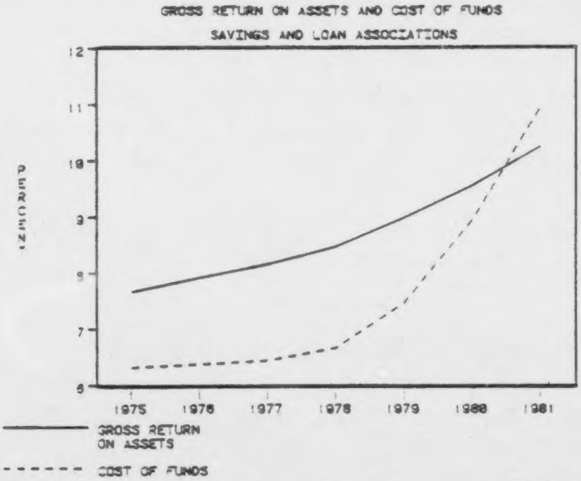
Mr. Chairman, Members of the Subcommittee, I appreciate this opportunity to appear before you today concerning the fiscal year 1983 budget request of the Federal Home Loan Bank Board. Our request of $66,160,000 is 5.1 percent greater than our 1982 revised estimate, largely due to anticipated general price increases. I will comment specifically on the Board's budget request with respect to administrative and nonadministrative expenses subject to limitation, Bank Board cooperation with state regulators, and agency equal employment efforts last year. To assist the Subcommittee in its policy oversight function, however, my statement will focus primarily on the status of the thrift industry, including the performance of thrifts during 1981, recent and proposed Bank Board deregulatory activity, and the necessity for Congressional restructuring of the thrift industry. I will also discuss the impact of thrifts' difficulties on the Bank Board's personnel and financial resources.

A. Thrift Industry Status

1. Thrift Industry Performance During 1981

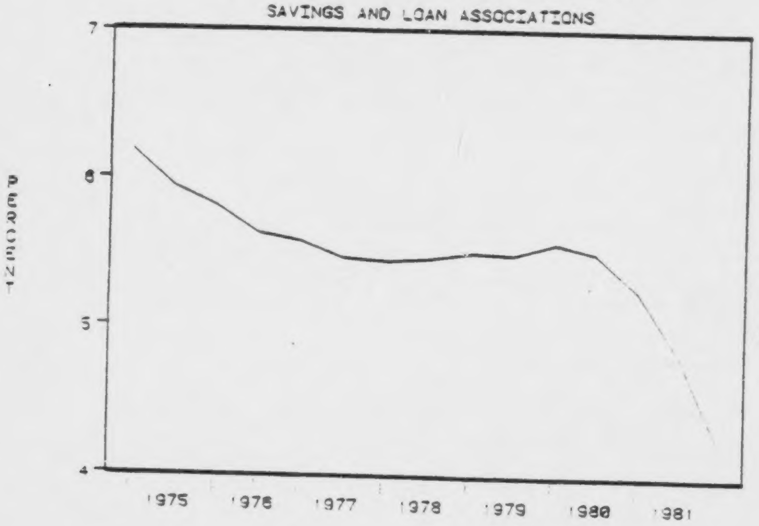
As you know, the thrift industry last year experienced its worst earnings period since the Depression. Thrifts' difficulties stemmed primarily from the unprecedented level of market interest rates in 1981. Average interest rates established new records last year, with, for example, yields on 6-month Treasury bills averaging 13.80 percent, almost 250 basis points higher than the average rate for 1980. These high interest rates placed thrifts in an untenable position, forcing them to pay higher rates of interest on savings than they currently receive on their asset portfolio, primarily long-term, relatively low yielding mortgages.

Specifically, S&Ls last year experienced a negative gap of 64 basis points between their average cost of funds (10.92 percent) and their gross return on assets (10.28 percent). Moreover, this gap generally increased during the year. For example, although the average cost of funds (both deposits and borrowings) to S&Ls rose by 242 basis points between the last halves of 1980 and 1981

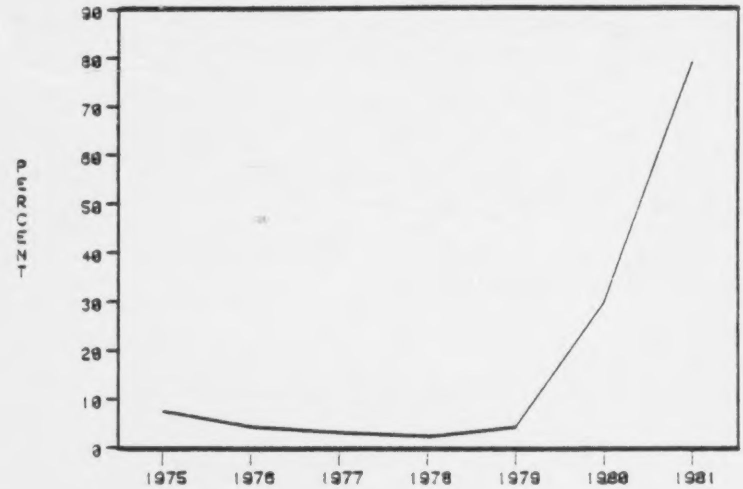


(from 9.11 percent to 11.53 percent), the gross yield on S&L assets rose only 78 basis points over the same period (from 9.68 percent to 10.46 percent) representing a three-to-one ratio in the increase of cost of funds to the increase in gross yield. The significance of this negative and accelerating gap is highlighted by the fact that a positive spread of nearly 150 basis points is necessary to recoup operating expenses.

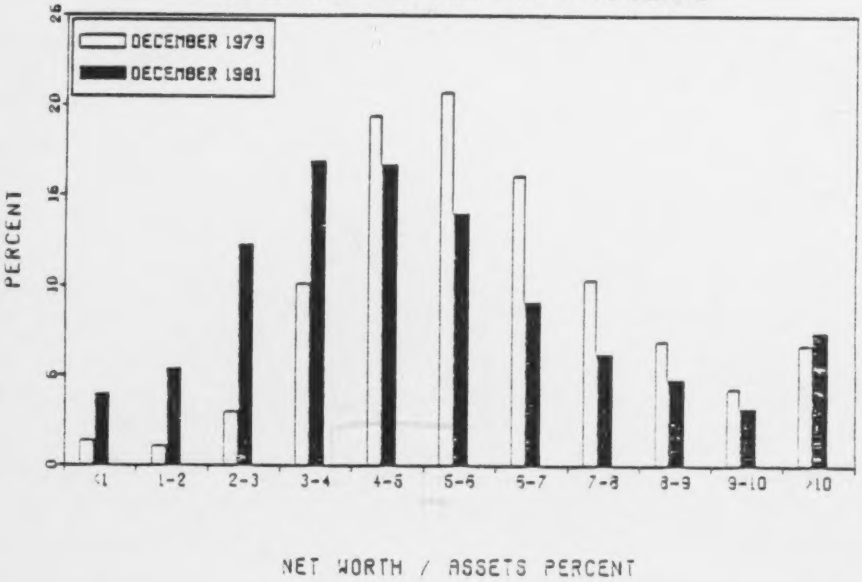
This earnings position resulted last year in a record net after-tax loss for the industry of $4.6 billion, with a record semi-annual loss of $3.1 billion occurring in the second half of the year. This $4.6 billion loss caused the overall net worth of the thrift industry to drop by about 15 percent to $27.6 billion. At year end, the net worth of S&Ls equalled 4.2 percent of total association assets, down from 5.2 percent at year end 1980.


NET WORTH AS A PERCENT OF TOTAL ASSETS
SAVINGS AND LOAN ASSOCIATIONS

The magnitude of the industry's total net loss derives primarily from the fact that the difficult operating environment affected virtually every individual association. About 80 percent of federally-insured associations had a net loss last year, and the earnings of the remaining 20 percent were generally very depressed.

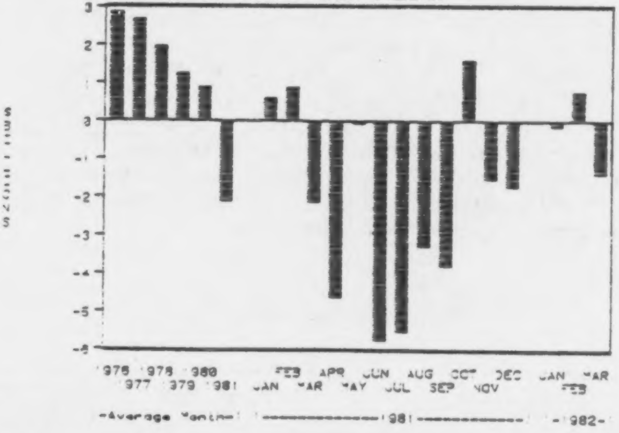

PERCENT OF SAVINGS AND LOAN ASSOCIATIONS EXPERIENCING LOSSES

Accordingly, a historically large percentage of institutions had a low net worth-to-assets ratio last year.


PERCENTAGE DISTRIBUTION OF ASSOCIATIONS BY RATIO OF NET WORTH TO TOTAL ASSETS

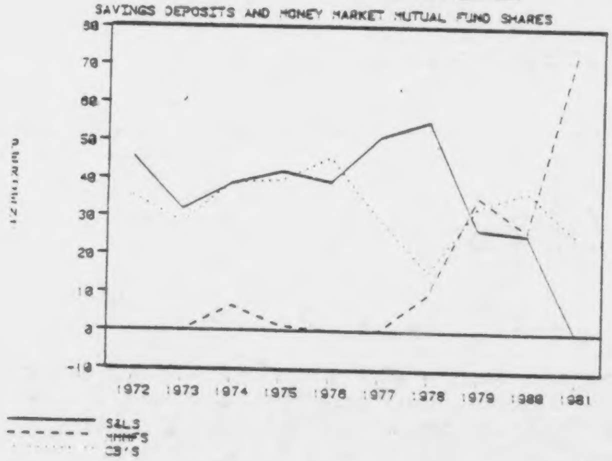
In addition to their earnings problems, thrifts also experienced difficulties with respect to deposit flows. While deposit balances on the industry's books technically increased by $13.4 billion as a result of the crediting of interest earned to depositors' accounts, withdrawals exceeded new deposits received by $25.4 billion, by far the largest deposit outflow on record. Moreover, although deposit flow was somewhat better in January and February this year (partially because of usual seasonal influences), this JanuaryFebruary inflow was more than offset by an outflow during March of approximately $1.4 billion.

NET NEW DEPOSIT RECEIPTS OF SAVINGS AND LOAN ASSOCIATIONS
(WITHOUT INTEREST CREDITS)



In order to forestall potential difficulties in cases where a particular institution has an immediate need for cash (coin and currency), each Federal Home Loan Bank has made appropriate emergency arrangements with respect to providing such cash to its members. For example, each Federal Home Loan Bank has make arrangements whereby a Federal Reserve Bank would provide assistance in such situations. As in 1980, the S&L share of the savings market decreased, as the unregulated money market mutual fund industry continued to attract funds from depository institutions.

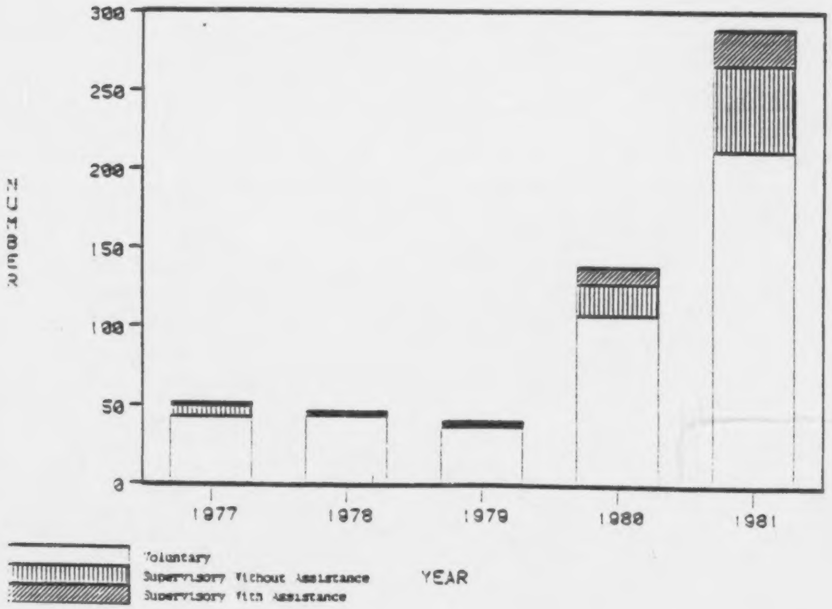
MARKET SHARES OF FLOWS OF SMALL DENOMINATION
SAVINGS DEPOSITS AND MONEY MARKET MUTUAL FUND SHARES



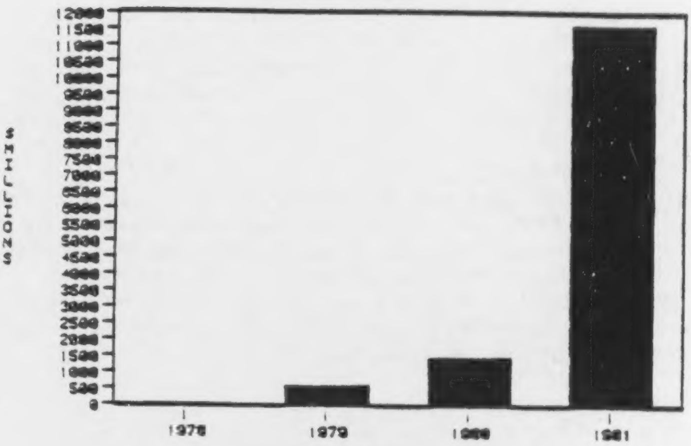
Largely due to last year's deposit outflow, thrift mortgage lending was relatively depressed, with mortgage loans closed by FSLIC-insured associations in the amount of $52.1 billion, the smallest lending volume since 1974. Whereas associations acquired about 50 percent of the net increase in home mortgage debt during most of the 1970s, this share decreased from 30 percent in 1980 to only 23 percent last year. Indeed, in the second half of last year, the savings and loan contribution was only 4 percent of total growth in home mortgage debt.

Finally, perhaps the most telling indicator of thrifts' current difficulties was the increase in industry consolidation resulting from the unprecedented number of thrift mergers. Each of the three types of mergers -- voluntary, supervisory without assistance, and supervisory with assistance -- approximately doubled between 1980 and 1981, with the total number of mergers increasing from 141 in 1980 to 296 last year. Roughly three-fourths of the mergers approved were voluntary, reflecting, inter alia, the belief that mergers may enhance associations' ability to compete. The remaining mergers were of a supervisory nature, including 23 mergers involving financial assistance from the Federal Savings and Loan Insurance Corporation ("FSLIC").

MERGERS APPROVED



The assets of the institutions merged with FSLIC assistance last year totalled $11.6 billion, more than 10 times greater than the assets of the institutions merged with FSLIC assistance in 1980.


TOTAL ASSETS OF FSLIC ASSISTED CASES

In passing, I would like to explain briefly our preferences with respect to solutions to thrifts' difficulties. Our sequential order of preference, subject to special circumstances, is as follows: (1) self-help; (2) an unassisted intrastate merger; (3) a "marginally assisted" intrastate merger (by "marginally assisted", I mean an amount that the FSLIC can afford to pay given its other commitments, but not significantly greater than the cost of its other options); (4) an unassisted interstate merger; (5) a marginally assisted interstate merger; (6) a cross-country merger; (7) a "Phoenix Plan" merger; and (8) liquidation.

A brief description of the operation of a Phoenix Plan merger is appropriate due to its recent origin. In essence, a Phoenix Plan merger is a means to "warehouse" temporarily a problem association until a permanent solution can be obtained. Under a Phoenix Plan, the FSLIC injects cash or cash equivalent notes in exchange for Income Capital Certificates issued by the acquiring or resulting institution. The cost to the FSLIC is identical by definition whether it uses cash or notes. The Phoenix Plan approach is designed to facilitate cost savings to the extent that the resulting institution will emerge as a successful, viable entity (thereby evoking comparison to the mythical Greek bird, Phoenix, which rose from its ashes in the freshness of youth). In particular, the FSLIC requires considerable controls to ensure prudent financial operation of the Phoenix, including authority to change management, eliminate excess branches, and to merge the Phoenix or part of the Phoenix at any time it becomes cost effective to do so. As indicated above, a Phoenix merger is utilized only when all other possible resolutions are exhausted and the Phoenix merger is less costly than a traditional liquidation. Significantly, under current economic conditions, the cost of a Phoenix Plan merger is estimated to be less than 20 percent of the cost of liquidation.

2. Deregulation

As set forth above, our first preference for a solution to thrifts' difficulties is self-help. Accordingly, in order to provide the industry with enhanced opportunity for self-help, the Board's regulatory activity in 1981 was aimed primarily at deregulating the S&L industry. For example, the Board amended its regulations to provide S&Ls with increased flexibility in the areas of mortgage instruments, investment in futures, service corporation powers, and deposit instruments. In our view, the revised mortgage instrument regulations and futures investment regulations will help significantly to provide thrifts with the opportunity to reduce their interest rate risk exposure. Additional Bank Board action arising in part from the current difficulties facing thrifts involved liberalization of the borrowing, accounting and reserve requirement regulations.

The Bank Board has continued its deregulatory effort during the first part of this year. For example, the Board recently proposed regulations to allow savings and loan associations to engage in options trading in the futures market. The Board also recently proposed regulations to change the Loan Application Register and the Data Submission Report currently required to be maintained by insured institutions. The proposed regulations would reduce paperwork for insured institutions, while enabling institutions and the Board to monitor efficiently compliance with applicable lending practice laws. Finally, the Board on April 28, 1982, amended its regulations governing conversions from mutual to stock form. The amended regulations provide FSLIC-insured institutions with increased flexibility to structure their conversions and will reduce significantly the expense and time required for conversion. We will continue to pursue appropriate actions to help thrifts survive the current crisis as viable competitors.

3. Necessity for Congressional Restructuring of the Thrift Industry

Notwithstanding our efforts to deregulate the S&L industry, the outlook for thrifts in 1982 is bleak in terms of both their liability and asset sides. With respect to their liability side, since associations last year lost deposits despite paying market interest rates on the majority of those deposits, I am concerned that, in spite of the increase in new IRA and Keogh accounts, the S&L industry will also experience a deposit outflow in 1982. Thrifts' asset side prospects are also relatively dismal in the short term because the return on their mortgage portfolios will increase only gradually as old, low-rate mortgages are repaid and current, market-rate mortgages are acquired. Thus, in the absence of a very substantial decline in the cost of funds caused by a sharp drop in short-term interest rates, there is virtually no prospect for the industry to become profitable this year. Given this scenario, it seems clear that the long-term viability of the thrift industry depends upon a restructuring of thrifts' statutory empowerments. Specifically, the ongoing unilateral deregulation of thrifts' liability side simply must be balanced with comparable deregulation of their asset side if thrifts are to remain economically tenable institutions on a long-term basis.

In this regard, I again ask Congress to enact S. 1703 at the earliest possible date. This bill, which we have proposed and which the administration has endorsed, would provide thrifts with broadened powers to generate the earnings they need to pay competitive interest rates on savings accounts. While some assert that enactment of our proposal would have an adverse impact on housing finance, I believe it is highly unlikely that thrifts would abandon this area of expertise and experience en masse. Rather, additional asset side flexibility will simply enhance thrifts' earnings position, thereby allowing them to continue their role as housing lenders.

B. Impact on Bank Board/FSLIC Resources

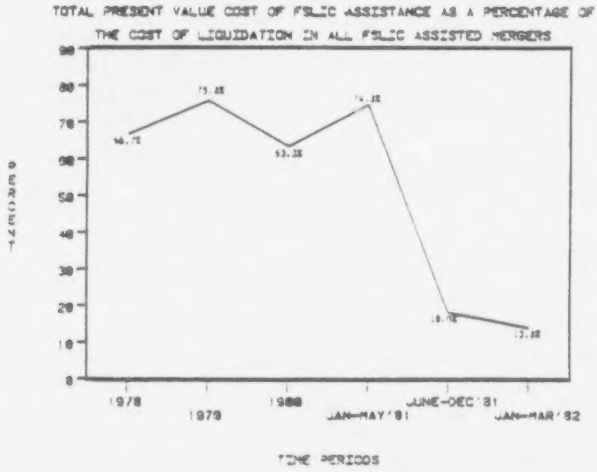
Thrifts' severe economic difficulties last year placed extraordinary demands on Bank Board/FSLIC resources. In particular, the unprecedented number of required supervisory actions led to a vast increase in the work load of the staff of the FSLIC, the Office of the General Counsel, and the Office of Examinations and Supervision. The Bank Board's staff has coped with this difficult situation in large part by further developing creative and streamlined operating procedures. For example, the Office of Examinations and Supervision has utilized detailed computer models that are able to detect at an early stage associations with deteriorating financial characteristics. Working with the Supervisory Agents in the 12 regional Federal Home Loan Banks, 58 associations with total assets of $3.6 billion projected for insolvency were merged into financially sound institutions in 1981 without any financial assistance from the FSLIC. In the first quarter of 1982, there have been 36 non-FSLIC-assisted mergers involving institutions with assets of $3.1 billion. Similarly, the Office of the General Counsel has developed improved procedures with respect to review of merger applications and has recommended deregulatory measures to the Board to further remove impediments to and delays in voluntary mergers.

Concerning the FSLIC, that office successfully handled 30 default prevention cases last year, almost triple the then-record 11 cases handled in 1980. In addition, the FSLIC last year resolved its first actual payment of insurance case in almost 10 years, Economy Savings and Loan Association of Chicago, Illinois. During the first quarter of 1982, the FSLIC has successfully resolved 21 default prevention cases. The continued success of the FSLIC derives from its efficient and creative supervisory procedures, as well as the dedication, hard work, and long hours of the staff.

These characteristics were clearly evidenced, for example, by the payout of insurance to depositors of Economy. Although Economy had more than 8,000 accounts and $68 million in deposits, the FSLIC was able through improved automated payout procedures to open the doors of the association five days following the default date and begin payment to insured depositors. Moreover, within 12 days following default, over 90 percent of all insured savers had been paid. (Future procedures will allow an even quicker pay out, should a similar situation arise.)

More importantly, the FSLIC has stretched substantially its personnel and financial resources through the use of efficient, creative procedures for administering problem cases, including expansion of the range of potential merger partners, particularly during the last 7 months of 1981. For example, during January-May, 1981, the average cost-asset ratio for resolution of a problem case was 22 percent (7 problem cases with assets of $1.5 billion at an estimated present value cost of $344 million), a typical cost-asset ratio for default prevention actions over the last several years. By contrast, during June-December, 1981, the average cost-asset ratio was 5.1 percent (23 cases involving assets of $12.3 billion at an estimated present value cost of $663 million), one-fourth of the January-May, 1981/typical cost-asset ratio of resolving problem cases. This ratio dropped further to 3.8 percent for the 23 cases resolved in the first quarter of 1982.

Similarly, the total present value cost of FSLIC assistance as a percentage of the cost of liquidation decreased significantly during June-December, 1981. This percentage continued to decrease during the first quarter of 1982.



The decreases in the cost-asset and present cost-liquidation cost ratios occurred partly because the FSLIC began to negotiate merger agreements with assistance payments payable over time. As a result, actual cash outlays in the last seven months of 1981 amounted to less than 0.5 percent of assets compared to 61 percent of assets in the first five months of 1981. Whereas the FSLIC had no cash on hand as of May, 1981, it had cash on hand of almost $800 million as of February of this year, representing a positive cash flow of almost $100 million per month over that 8 month period. The FSLIC has maintained this $800 million cash on hand amount over the past 2 months.

As of January 31, 1982, the net assets of the FSLIC insurance fund had a book value of $6.4 billion and a market value of $4.9 billion. The "net" figures represent total assets with a book value of $7.0 billion and a market value of $5.6 billion, less liabilities of $118 million and a $556 million allowance for estimated payments on existing assistance agreements. The $6.4 billion book value compares to a $6.3 billion book value for total assets as of December 31, 1980.

In spite of these improvements in procedures and the accompanying beneficial impact on costs and cash outflows over the last seven months of 1981, the FSLIC has emerged from the past year with slightly lower levels of uncommitted reserves than it held at the end of 1980. This reduction is due in part to the decision to set up contingency reserves for losses which are anticipated to be incurred over the life of assisted mergers completed in 1981.

In conclusion, the Bank Board takes pride in the efforts of its staff during this crisis period. We continue to pursue, of course, operating improvements in order to keep our administrative tasks manageable. In this regard, under current projections, the financial resources of the FSLIC are sufficient to deal with thrifts' difficulties. Nevertheless, I would point out that, given the present circumstances of the industry and the current rate of losses, it is quite likely that the personnel and financial resources of the Bank Board and the FSLIC will be severely strained over the next several years. In this context, it is important that the Congress continue to provide the Bank Board with budget flexibility commensurate with its administrative responsibilities.

C. Budget Issues

At this point, I would like to comment on several specific items related to our FY 1983 budget justification: the Bank Board's cooperation with state regulators; the Board's equal employment record; and the Board's administrative and nonadministrative expenses subject to limitation.

1. Cooperation With State Regulators

The Bank Board continues to seek improved cooperation between this agency and state savings and loan regulatory officials. A major aspect of our cooperative efforts with state regulators, and an area of concern to the Subcommittee in the past, is the state examiner training program. The purpose of this program, of course, is to enable state examiners to assume a greater share of the Board's examination workload. Five hundred twenty-eight state examiner registrants attended Bank Board-funded training courses during FY 1981. We also continue to work closely with state regulators through the Joint Federal-State Committee on Examinations to identify training needs of state examiners and to formulate programs to meet those needs.

In addition, I believe that we have a solid record in terms of developing cooperative examination programs with states. Among the 53 states and territories, we have established joint examination programs in 34 states and 1 territory and concurrent or simultaneous examination scheduling in an additional 6 states. There are 6 states and 2 territories which do not perform examinations. Thus, in only 4 states that perform examinations have we not established some type of cooperative examination approach. These states have consistently expressed a preference for separate examinations.

Finally, the current economic period has required greater cooperation with state regulators in the supervisory area. Accordingly, we have shared with state regulators our information and projections with respect not only to troubled state-chartered institutions, but troubled federally chartered institutions as well. In addition, in January, the Bank Board and the National Association of State Savings and Loan Supervisors convened two conferences principally to discuss ways of improving federal-state coordination in supervisory resolutions of troubled institutions. These conferences were attended by state supervisors from across the country, as well as senior staff and supervisory agents from the Bank Board in Washington and the field.

In looking ahead, I can assure the Subcommittee of our continuing support for the dual, federal-state charter system and, more specifically, for efforts to improve cooperation between the Bank Board and state regulatory agencies within that system.

2. Equal Employment Efforts

Although the combination of lower attrition rates and stricter budget controls have kept hiring activity at lower than normal levels over the past year, we have been able to continue our progress toward meeting the Bank Board's affirmative action goals. For example, of the 71 professional and administrative employees hired at grade levels GS-9 through SES between February, 1981 and February, 1982, 24 (29 percent) are females and 14 (20 percent) are minorities. Moreover, four of the Bank Board's fifteen Offices (37 percent) are now headed by female or minority directors.

In last year's testimony, we stated that we had placed special emphasis on the recruiting and retention of underrepresented groups in our most populous occupational field, savings and loan examiners. We selected this occupation not only because of its size, but also because many of our higher level positions at the headquarters office are filled from the examiner workforce. In late 1980, we recruited and hired 27 trainees, including 8 minorities (29 percent) and 6 females (22 percent) in a new program at the GS-4 level. Twenty of these employees are still with the Bank Board and all have been promoted to GS-5, the normal entry level. Six of these employees are minorities (30 percent), and 5 are females (25 percent).

Based on our success at the lower level, we established our own staffing program for S&L Examiners at the GS-5 and 7 levels under delegated authority from the Office of Personnel Management in July 1981. Of the 285 applicants rated eligible for employment as of the end of January, 65 (23 percent) are minority candidates and 62 (22 percent) are females. The selection rates for minority and female candidates are approximately the same as their representation on the applicant supply list -- 8 (25 percent) of the 31 total hires are minorities and 6 (19 percent) are females. We are confident that, through the administration of our own specialized examining plan, we can reach our goals and maintain a highly-qualified, motivated workforce.

3. Administrative and Nonadministrative Expense Limitations

Finally, I would like to comment on the Bank Board's administrative and non-administrative expenses subject to limitation. As I stated at the beginning of my statement, the Bank Board is asking for authority to spend $66,160,000 in fiscal year 1983. This is $3,210,000 (5.1 percent) above the $62,950,000 revised estimate for fiscal year 1982. The Bank Board is not requesting additional full time equivalent positions for 1983. Rather, the increase essentially stems from general price increases, including the pay and benefit adjustments required by the 4.8 percent October pay raise, increased travel costs (primarily examiner travel), and the increased cost of various supplies and materials. The Bank Board believes that the spending requests contained in the budget justification, which was previously submitted to you, are realistic estimates of the amount necessary to enable the Board to carry out its statutory duties to supervise thrift institutions and to promote home ownership.

In closing, thrifts are currently experiencing their worst period since the Depression. Although the Board's staff has been very creative in resolving thrifts' difficulties, the problems of the thrift industry continue to mount daily. In this context, it is essential that Congress continue to provide the Bank Board with sufficient budget flexibility to deal with such problems. An additional necessary approach involves restructuring of the thrift industry by enactment of our legislative initiative, S. 1703, at the earliest possible date.

This concludes my statement. My staff and I would be pleased to respond to any questions.

NOTE: In accordance with 12 U.S.C. § 250, this statement has been reviewed only by the members of the Federal Home Loan Bank Board. The views expressed herein represent those of that agency, and do not necessarily reflect the views of the President.

INTRODUCTION OF ASSOCIATES

Senator LAXALT. Would you proceed.

Mr. PRATT. Thank you, Mr. Chairman.

I might take one second and identify the people at the table. To my far left is Dr. Chamberlain, Director of our Office of Policy and Economic Research; Mr. Vaughan, the Budget Officer of the Board; to my immediate left Mr. Buchanan, Executive Staff Director; to my right, Tom Vartanian, General Counsel; to his right, Dr. James Croft, Director of our Office of Examinations and Supervision; and to his right, Mr. Bill Schilling of the FSLIC.

Senator LAXALT. Glad to have you here. You have had a lot of grief visited on you this last year. Please proceed.

SUMMARY OF STATEMENT

Mr. PRATT. Mr. Chairman, members of the subcommittee, I appreciate this opportunity to appear before you today concerning the Federal Home Loan Bank Board's fiscal year 1983 budget. To preserve maximum time for your questions, my oral remarks will be brief.

Our fiscal year 1983 budget request is $66,160,000, which is 5.1 percent greater than our 1982 revised estimate. This increase is due to anticipated general price increases.

STATE OF THE THRIFT INDUSTRY

With respect to the thrift industry, as you know, savings and loan associations last year experienced their worst difficulties since the Great Depression. The industry's principal problem is the growing negative gap between its average cost of funds and average gross yield. Due primarily to this negative spread, 80 percent of federally insured associations suffered a net loss last year. The industry had a record net loss of $4.6 billion, which caused its overall net worth to drop by about 15 percent, to $27.6 billion. At year end, the net worth of savings and loan associations equaled 4.2 percent of total association assets, down from 5.2 percent at year-end 1980.

Thrifts also experienced difficulties last year with respect to deposit flows and mortgage lending. Withdrawals exceeded new deposits received by $25.4 billion, by far the largest deposit outflow on record. Although deposit flow was somewhat better in January and February this year, such inflow was overshadowed by an outflow in March of approximately $1.4 billion. Reflecting last year's deposit flow, the volume of thrift mortgage lending in 1981 was the smallest since 1974. Indeed, during the last 6 months of 1981, the savings and loan contribution to total growth in home mortgage debt was only 4 percent.

As further evidence of thrifts' troubles last year, the total number of mergers increased from 141 in 1980 to 296 last year. Roughly three-fourths of the mergers were voluntary. Of the supervisory mergers, 23 involved FSLIC assistance. The assets of the institutions merged with such assistance totaled $11.6 billion, more than 10 times greater than the assets of the institutions merged with FSLIC assistance in 1980.

REGULATORY ACTIVITY

In order to provide the thrift industry with enhanced opportunity to solve its problems, the Bank Board's regulatory activity last year was aimed at deregulating the industry. For example, the Board amended its regulations to provide S&L's with increased flexibility in the areas of mortgage instruments, investment in futures, service corporation powers, and deposit instruments. The Board's deregulatory efforts have continued this year. For example, the Board has adopted final regulations to reduce the time and expense required for mutual-to-stock form conversions, and has proposed regulations to allow savings and loan associations to engage in options trading when that market develops.

COPING WITH INCREASED WORKLOAD

Thrifts' severe economic difficulties placed extraordinary demands on Bank Board/FSLIC resources, particularly with respect to the supervisory workload placed on the staff of the FSLIC, the Office of the General Counsel, and the Office of Examinations and Supervision. The Bank Board's staff has coped with this adverse situation in large part by developing creative and streamlined operating procedures. Perhaps most importantly, the FSLIC has stretched substantially its personnel and financial resources through the use of efficient, creative procedures for administering problem cases, including expansion of the range of potential merger partners. Such procedures enabled the FSLIC to reduce the average ratio of cost-to-assets for resolution of problem cases from 22 percent for cases resolved in the first 5 months of 1981 to 5.1 percent for cases resolved in the last 7 months of 1981. In the absence of such procedures, the FSLIC fund would be completely exhausted at this time.

In closing, please note that, notwithstanding our efforts, thrifts' problems continue to mount daily. In this context, it is important that Congress continue to provide the Bank Board with budget flexibility commensurate with its administrative responsibilities. At the same time, Congress should proceed at the earliest possible date with a restructuring of the thrift industry, particularly as set forth in our legislative proposal, S. 1703.

This concludes my statement. My staff and I would be pleased to answer any questions.

EFFECT ON HOUSING DEMAND OF S. 2226

Senator LAXALT. Thank you very much, Mr. Pratt.

Last year you stated that a mortgage interest of 12 to 13 percent may release some of the pent-up demand for housing, thus leading to a recovery in housing starts. To what extent do you believe that S. 2226, Senator Lugar's housing stimulus bill, which permits an interest buy down to 11 percent, would successfully release some of this demand?

Mr. PRATT. Our estimate is this bill would probably affect approximately 200,000 housing starts, and that is, of course, a substantial amount.

Senator LAXALT. What is the expectancy this year?

Mr. PRATT. Around 2 million starts would be the current level, which could change over time.

I think that in looking at a bill like the Lugar bill, there are three aspects that might be considered. One is the issue of subsidy. Of course, it is a rather deep subsidy to a rather narrow group of people, and Congress must consider the implications of that. Second, its effect on builders and suppliers and how much broad benefit would accrue to them. And third, its effect on stimulating the economy. Two hundred thousand starts is obviously significant. At the same time, it is a relatively narrow group that receives rather deep public benefits.

Senator LAXALT. What do you think, aside from that, about the general approach contained in the bill?

Mr. PRATT. Well, if the attempt of the bill is to get housing starts and provide activity in that area, we believe that it will have some success in that regard, and certainly a 20-percent increment in the housing starts is substantial.

MORTGAGE RATES

Senator LAXALT. What is the current, averagewise, mortgage rate in the country? Is the range somewhere between 14 and 15 percent or is it higher?

Mr. PRATT. I believe the rate would be somewhat higher than that. The Federal Home Loan Mortgage Corporation has been buying more in the course throughout this period. In recent months, those rates would have ranged in the 16- to 18-percent range. In early April, major mortgage lenders offered an effective average commitment rate of 17.41 percent. So this would be the rate at which institutions were willing to provide funds for projects. The actual rate on closed loans would be somewhat lower than that, probably somewhere in the 15- to 16-percent range.

RELATIONSHIP BETWEEN PRIME AND MORTGAGE RATES

Senator LAXALT. What is the relationship at the present time, if there is one—and I assume there has to be—between prime and the mortgage rate?

Mr. PRATT. At the present time, my understanding would be that the mortgage rate would be slightly above prime. The correlation isn't always necessarily close because the mortgage rate we are looking at here is for a 30-year, fixed-rate instrument, and that is entirely different than a floating rate commercial loan.

Senator LAXALT. As you know, we are working on a package.

Mr. PRATT. Yes, sir.

Senator LAXALT. We would like to accomplish passage of that package on both sides. I think it is imperative that we have bipartisan support for this package.

Mr. PRATT. It is absolutely imperative.

Senator LAXALT. I think it is, too, from every standpoint. Tell me, if we are able to achieve this package—and we rather suspect this would receive a favorable response from the Fed and the commercial banks and others in the financial market—how many points would we have to gain on prime before we have a positive effect on the housing industry?

Mr. PRATT. We have seen a substantial sensitivity. Just looking at our own Federal Home Loan Mortgage Corporation, when rates have been above 17 percent, the volume per auction has often been down around the $2 to $3 million level; and when these rates fell even to the 16-percent range, the volume picked up dramatically. We think there is substantial sensitivity to interest rates there and certainly a 1-, 2-, or 3-percent change in prime—any change in prime—is going to have significant impact.

Senator LAXALT. So are you telling me if we are able, Lord willing, within the next several weeks to effect a change in prime of, say, 3 points, that that would have a dramatic effect on the housing mortgage market?

Mr. PRATT. I certainly believe over time it would. The market has to see it and believe it, and there needs to be some sustained drop. At the present time—this morning, I believe a 6-month Treasury bill rate, which we watch closely because so much of savings and loan associations costs are tied to this, is running about 12.5 percent. This is down from its recent highs of about 13.5, another 200 to 300 basis points there. With some belief that that is going to be a permanent or semipermanent change, I believe it would have dramatic effects on the thrift industry and on the housing industry.

Senator LAXALT. The indicators these last several days have looked pretty good.

Mr. PRATT. Yes; the rate has been coming down and over the last 2 weeks or so has dropped about 100 basis points. We hope that trend continues.

Senator LAXALT. I hope so too. Of course, if we can contain the CPI near the levels we have, if we can satisfy the financial community that the trend is a permanent condition rather than an aberration, and if we can get a handle on the deficit, it would seem to me the climate is finally right—it is the first time I felt this way—we might be able to get some relief.

Mr. PRATT. I would certainly share that opinion. There is incentive for savings that is high; that is, nominal interest rates are high, inflation is low. If that can continue and if the powers that be here and at the White House can come to a budget resolution with some decrease in the deficit, I believe we are well poised for substantial improvement in the financial markets.

Senator LAXALT. Let's all hope so.

Mr. PRATT. Yes, sir.

THRIFT INDUSTRY EARNINGS EXPERIENCE IN 1981

Senator LAXALT. As you note in your opening statement, the thrift industry last year experienced its worst earnings period since the Depression. The graph on page 2 of your statement strikingly depicts the accelerating gap of S&L's gross return on assets and their cost of funds. You state that a positive spread of nearly 150 basis points is necessary to recoup operating expenses. How many S&L's, Mr. Pratt, presently are realizing less than this 150-point spread?

Mr. PRATT. Well, during the first quarter of 1982, about 80 percent of the institutions had a net operating loss, which would mean that around 3,200 would be failing to meet that general criteria, with approximately 20 percent achieving a spread somewhere in the neighborhood of that 150 basis points; and in the final 6 months of last year there would have been 15 percent of the associations achieving an operating profit.

Senator LAXALT. Pretty dismal, isn't it?

Mr. PRATT. Yes; the industry is in a very substantial earnings squeeze.

NET WORTH RATIOS

Senator LAXALT. Your statement also contains a graph. This one characterizes S&L's in terms of net worth-to-assets ratio. Although this shows an historically large percentage of institutions having a low net worth-to-assets ratio, about 7 percent of the institutions are experiencing ratios of over 10 percent. What characterizes these better performing S&L's? I know management does play a role. In fact, I know of a couple of S&L's in Nevada and they take great pride in investments which broaden their base. Is this essentially the main reason?

Mr. PRATT. I think there are four explanations that would account for this for the most part, Senator Laxalt. One would be new institutions which do not have a burden of the old portfolio and which have recently been capitalized. This would be a good time to start an institution, and has been for a year or two.

Second, there are a set of institutions which have been extremely conservative and simply have not grown, have preserved capital and made sure they have a high ratio.

Third, and, of course, from our point of view most importantly, would be the exceptionally well-managed institutions that realized the risks that were possible in this business, prepared for them, got the expertise and the diversification within the limits available, and pursued it.

Market area also has something to do with this. In the case of Nevada, a substantial explanation would be the strong economy which has existed there for some time.

DEPOSIT FLOWS

Senator LAXALT. You note that the industry is experiencing its worst deposit outflow on record with withdrawals exceeding deposits by $25.4 billion. Your chart on page 5 seems to indicate the period of greatest outflow may be past and that things are stabilizing.

Do you detect any trends and what factors or actions might stabilize this condition?

Mr. PRATT. Well, the first 3 months of this year did seem to provide a substantial improvement. However, the indications we have for April would indicate that we are pretty much on track with last year's $25 billion loss in savings. So the recent development has not been helpful in that regard.

I do see some positive factors on the horizon. One is the action of the DIDC at its last meeting authorized, as of May 1, an account with a differential. As you know, the issue of the differential has been a highly controversial one, allowing savings and loan associations to pay one-fourth of 1 percent higher than commercial banks. Given the fact that at this time savings and loan associations are legislatively prohibited from having the same asset powers of most of their competitors, we think some leveling of the playing field on the liability side has been imperative.

However, that differential should certainly go and institutions should be competing openly for funds. We hope that the current situation with the differential can be maintained to stabilize funds flowing into institutions, that the assets deregulation and new profit opportunities can occur so that these institutions can be competitive on the forefront. However, at the present time, it does look very much like last year.

Senator LAXALT. Where is this money going—is it going to money market funds?

Mr. PRATT. A substantial portion, of course, is going to money market funds, and a substantial transfer is occurring between savings and loan associations and commercial banks. The difficulties which savings and loan associations are experiencing have certainly cost them in terms of the public's willingness to put funds there. We are working hard, as you are, to buoy up that confidence. The joint resolution of the House and Senate concerning the safety of insured funds was important, and we appreciate that.

THRIFT INDUSTRY DEREGULATION

Senator LAXALT. On pages 9 and 10 of your justification you discuss your efforts at deregulation in fiscal year 1981 and fiscal year 1982. Mr. Pratt, what specific proposals have you recently made, other than allowing S&L's to engage in options trading in the futures market?

Mr. PRATT. Well, that is a relatively minor aspect, of course, even though it can be a very important one. In fact, the futures market, while it is controversial in its own right, is one of the really important tools of preserving fixed rate, fixed-term mortgage money for the American people. When used properly, it can be very important.

However, our watchword has been deregulation. It is our opinion that operating management makes better decisions than we do, and that regulations should be the minimum required by the public interest.

In that regard, we have virtually freed up the regulations on mortgage instruments, so if a savings and loan association and its customer can find a mortgage that suits them, we will approve it. We have greatly restructured the legal environment in which savings and loan associations operate so that when this period passes they will have operating flexi-bility in terms of the ability to merge on a more timely basis. The ability to convert from mutual to stock institutions is going to be very important to get private capital into these institutions, to give them access to capital markets. We have removed restrictions on the bunching of liabilities. We have taken major steps in liberalizing service corporation activities. We have come to the Congress and to the Senate with sweeping legislation which would make deregulation a competitive imperative. We believe this is perhaps our strongest suit and one we continue to follow with great enthusiasm.

THRIFT INSTITUTIONS RESTRUCTURING ACT OF 1981

Senator LAXALT. You are supporting the enactment of S. 1703, the Thrift Institution Restructuring Act. What major changes might occur in the industry as a result of enactment of S. 1703?

Mr. PRATT. Sir, we would like to see three pieces of legislation move through the Senate, dealing with short-term assistance to the thrift industry: capital assistance; what has been known as the regulators' bill, which would faciliate additional mergers across industry and across State lines; and other factors of importance; and third, the powers contained in S. 1703. If S. 1703 passes, which we expect major portions of it to do and hope it will, we think this provision is the ticket to viability in the long run for this set of institutions so they will not need to be back before you in 3 years or 5 years asking for a short-term assistance program again. With the Congress having deregulated on the liability side and having indicated that institutions must compete openly for funds, I think has been a great benefit to savers and is providing the best climate for those who have savings that has ever existed in this country.

A commensurate situation has to be deregulation on the assets side so funds can go where they receive the highest market return and best serve their communities. The deregulation which we have been seeking would allow savings and loan associations, for instance, to take a demand deposit of a developer who they may be providing the long-term mortgage funds and land development loans to but which can't take his checking account. At the present time, they couldn't lend to a developer to buy a backhoe to develop the property they are lending on. We think the commercial powers, the demand deposit powers, and the extended real estate powers are going to provide a peripheral set of activities which will stabilize institutions over the business cycle, keep them in the business of real estate financing, and keep them as important and viable suppliers of mortgage finance in this country.

Senator LAXALT. I would think so, I would hope so.

What impact, if any, would the enactment of S. 1703 have on the thrift industry's traditional role in housing finance?

Mr. PRATT. I would simply say while some people have worried about them leaving mortgage finance, right now we have a set of institutions which, in my opinion, are not viable in the long run. If they are going to provide housing finance, they have to be here. They may provide a smaller piece but have a bigger and healthier competitive marketplace rather than a shriveling one. We see them continuing with their expertise and heritage and knowledge to be major financers of housing finance and that the additional powers will complement this, rather than destroy that ability.

Senator LAXALT. Do you think with all the so-called reforms and changes we are seeing, that the savings and loans in time will no longer be the traditional repository for housing mortgages?

Mr. PRATT. I think that some savings and loans may move away from this activity. But again, their knowledge and ability is clearly in that area. All of the demographic factors we see indicate a housing market of some importance in the next few years. I think there are going to be profits made there, and this is certainly the place where these institutions have a chance of being competitive at this time. I don't see that problem occurring.

MERGERS

Senator LAXALT. Lastly, let's talk for a moment or two, if we may, about mergers. As you note in your statement, mergers have more than doubled, from 141 in 1980 to 296 in 1981. Do you have any numbers as to how many mergers have occurred thus far in 1982 and how many are currently pending?

Mr. PRATT. Mr. Croft, would you have that?

Senator LAXALT. If you don't have the information, Mr. Croft, we would appreciate having it for the record.

Mr. CROFT. We could provide that for the record, Senator Laxalt.

Senator LAXALT. Any ball park? What are the trends? Are the mergers continuing along the same lines as last year?

Mr. PRATT. Staff has provided some information. During the first 3 months of 1982, the Board has approved 87 merger applications which will result in 102 institutions being merged into other institutions. Of these, 46 were voluntary, 32 were supervisory but didn't involve FSLIC assistance, and 9 were FSLIC assisted. During the corresponding 3 months of 1981, there were 50 mergers approved—41 voluntary, 5 supervisory, and 4 assisted. Currently, we have about 55 merger applications or assistance cases in process.

Senator LAXALT. So we are moving at an accelerated pace over last year.

Mr. PRATT. That will very likely be the case. We have estimated that perhaps 400 mergers will occur this year.

Senator LAXALT. Are these mergers inherently bad? Are we strengthening marginal institutions by these mergers? What exactly is the situation?

Mr. PRATT. We certainly don't think they are inherently bad. We see major changes in the financial market of this country. The development of large, unregulated financial institutions I think is going to change forever the face of financial institutions. We expect consolidation to occur. When institutions which have served well and have fulfilled a public need are simply caught in an economic squeeze and merged through the economic duress, then obviously it is not the kind of consolidation we would like to see. The mergers, in and of themselves, are going to occur on a voluntary basis. There are going to be mergers in both banking and savings and loans, in our opinion.

Senator LAXALT. Do you think the number of mergers will level off?

Mr. PRATT. Yes; I think that it will, but we believe that merger activity and consolidation will continue for a number of years. Again, the nonregulated institution, to operate completely on a nationwide basis, perhaps calls into question the present structure of small and isolated markets which local thrift institutions and banks presently have.

Senator LAXALT. So you think there will be enough strength that we will have diversity and not end up with the kind of results that the cynics have suggested--that by the end of the decade we will have maybe half a dozen thrift institutions in this country?

Mr. PRATT. We certainly don't expect that to be the case. There are 4,000 now and there are going to be many survivors. Assuming that the regulatory agency and the Congress act with dispatch and with thoughtfulness, these institutions are going to be competitive and they are going to be able to stand toe-to-toe with anyone and hold their own in the American economy.

Senator LAXALT. I think that is the real answer, if they can get out and compete on equal terms they will have a better shot. They certainly haven't had that opportunity thus far.

Mr. PRATT. We would share that.

MERGERS REQUIRING FSLIC ASSISTANCE

Senator LAXALT. Of those mergers which are pending, how many would you expect will require FSLIC assistance? And if you would, would you provide a table of total FSLIC assistance which has been offered in 1980, 1981, and 1982?

Mr. PRATT. Mr. Schilling will see that that is prepared. We think of the immediately pending cases, approximately 25 would involve FSLIC assistance.

Bill, do you have anything you would add to that?

Mr. SCHILLING. I think we can provide the information for the record.

[The information follows:]

FSLIC CASH OUTLAYS IN RENDERING FINANCIAL ASSISTANCE TO THE S&L INDUSTRY

	Fiscal year—		
	1980	1981	1982 (through Mar. 31, 1982)
Contributions	$39,098,999	$216,291,469	$216,271,821
Loans	157,301,516	229,354,133	1,207,200
Purchase of assets	1,118,968,048	630,176,601	14,009,669
Payment of insurance		68,131,237	201,180
Interest on promissory notes			1,938,347
Total	1,315,368,563	1,439,953,440	233,628,217

Senator LAXALT. Let me see if I have the numbers correct. There are 25 cases which would require FSLIC assistance and thus far a total of 102 mergers have taken place since 1981 and the first 3 months of 1982.

Mr. PRATT. Currently the Bank system has about 55 merger applications or assistance cases in process, and we believe that about 25 of these will be FSLIC assisted. That changes, of course, on a daily basis as we resolve them and other factors occur.

Senator LAXALT. When they required FSLIC assistance, does that mean that they are on the brink of bankruptcy or insolvency?

Mr. PRATT. That would indicate they are unable to continue as an independent association.

Senator LAXALT. They are just in deep trouble and need help desperately.

Mr. PRATT. Yes, sir.

Senator LAXALT. The remainder of the committee questions I will submit to you for response in the record.

Mr. Pratt, do you have anything further you would like to add?

Mr. PRATT. I believe that is all. We very much appreciate your time.

Senator LAXALT. I greatly appreciate your coming here. This has been very helpful. I hope in the weeks and months ahead that Congress, coupled with assistance from the financial community, can help breathe some life into the thrift industry.

Mr. PRATT. Thank you.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FSLIC PAYMENT OF INSURANCE

Question: Last year FSLIC resolved its first actual payment of an insurance case in almost 10 years, Economy Savings and Loan Association of Chicago, Illinois. What procedures have you implemented as a result of the Economy S&L case that would permit a quicker payout to insured depositors?

Answer: The first application of an automated procedure for paying insurance was used at the Economy S&L, Chigago. An automated procedure uses the data processing capabilities of the ADP firm servicing the savings and loan association. In addition, this type of payment of insurance provides for direct contact of the FSLIC with the insured depositor. This payment of insurance results in a timely and efficient payment to the insured depositor.

The FSLIC documented the procedure in order that additional staff of the FHLBB and the FSLIC can be used if multiple payouts occur. In addition, a training package has been developed to be used to train staff quickly in preparation for paying insurance.

The FSLIC has instituted several techniques to improve this automated payment of insurance. These techniques include:

- continued use of the data processing support of the service bureau. The FSLIC is continuing to assess the service bureau capabilities for supporting a payment of insurance.

- development of improved examination questions to better prepare the FSLIC for paying insurance.

- development of a transfer of accounts process for paying insured depositors.

The process of transferring all insured accounts directly to another FSLIC-insured S&L, where depositors may go for cash or where they may elect to leave their accounts, provides that the insured depositors do not lose any interest in their account. In effect, their deposits are immediately available. The S&L acting as our agent will be the highest bidder for this privilege. The proceeds from the bidding will be used to help reduce the costs of liquidation to the FSLIC.

In addition, the FSLIC began a public confidence program to educate the public on the major function of the FSLIC which is to protect the depositor in all FSLIC-insured associations. Literature on the insurance protection granted by the FSLIC has been distributed to the Federal Home Loan Banks for their circulation to the S&L's in their district. The Insurance Division has developed a speaking program for the public and S&L's on insurance of accounts.

FSLIC - RESERVES

Question: In your statement you note that the "FSLIC has emerged from the past year with slightly lower levels of uncommitted reserves than it held at the end of 1980". Are you comfortable with the current level of reserves -- if there were no other constraining factors? How much would you like to see in the insurance fund?

Answer: Assuming current economic conditions and the FSLIC's continued ability to use interstate or inter-industry combinations where necessary, the current reserves and the income from them should satisfy the needs of the FSLIC through 1983.

A significant change in circumstance (for example, an industry-wide assistance program involving commitments from the FSLIC) would require a re-evaluation of the current resources and the Corporations line of credit to the Treasury.

CASH ON HAND

Question: You note that in order to forestall potential difficulties in cases where a particular institution has an immediate need for cash each Federal Home Loan Bank has made appropriate emergency arrangements with respect to providing such cash to its members. Could you briefly describe the nature of these "emergency arrangements" and the amount of reserve available for use?

Answer: Each Federal Home Loan Bank has made arrangements for providing emergency cash to its members through the Federal Reserve Banks and Branches in its district. Although operational details vary, the Banks' arrangements with the Federal Reserve System are quite similar. Upon receipt of an emergency request from a member institution, a designated Federal Home Loan Bank officer telephones the appropriate Federal Reserve Bank or Branch and requests an emergency shipment of cash to the member institution. The Federal Reserve Bank, after verifying the authenticity of the request, immediately arranges for the shipment of the required currency to the institution. The Federal Home Loan Bank must wire funds to its account at the Federal Reserve Bank. That account is then charged for the currency shipment.

The Federal Home Loan Bank pays for the shipment of cash by either deducting the amount from the member institution's deposit account with the Federal Home Loan Bank or making an advance to the member institution. The Federal Reserve Banks have sufficient cash on hand to meet any foreseeable contingency.

ADVANCES TO MEMBERS

Question: Advances made to member institutions during fiscal year 1981 aggregated $52.2 billion, an increase of $17.9 billion over the $34.3 billion advances made during 1980. The balance outstanding aggregated $64.3 billion, an increase over the previous fiscal year of $20.1 billion or 46 percent. What are your projections for FY '82?

Answer: Federal Home Loan Bank advances to members rose by $3.6 billion during the first seven months of the current fiscal year (October 1981 - April 1982) and will probably increase by $7.0 billion during the remaining five months, for a total of $10.6 billion for the entire fiscal period. The expected acceleration during the next few months is largely seasonal. The slower growth anticipated for this fiscal year (as compared with a year earlier) reflects primarily smaller deposit outflows.

Question: What are you doing to assure that all advances made are necessary?

Answer: Current Bank Board policy is to assist members in meeting their needs for funds to cover net deposit withdrawals. Members contemplating making commitments for new residential lending to be funded by advances are required to consult with their Bank requiring availability. Advances are made at approximately market interest rates.

LOW-YIELD MORTGAGES

Question: Last year at your hearings, Senator Garn asked what could be done to reduce the number of low-yield mortgages being carried by S&Ls in order to increase S&L profitability? The Board suggested that one alternative would be accounting practices so as to enable thrift institutions to amortize losses involved with the sale of mortgages in today's market over a number of years rather than requiring the loss to be written off in the current period. What have you done to implement this concept?

Answer: The Bank Board adopted a regulation (563.c.14) permitting associations, for purposes of reporting to the Board, to defer and amortize losses resulting from the sale of mortgage loans, mortgage related securities and debt securities over its remaining term to maturity.

Question: Another plan that the Board proposed would involve S&Ls forming joint partnership with investors who would buy the mortgages at book value but would, if there was a favorable IRS ruling, be able to utilize realized tax losses from sales of these mortgages to generate income. What is the status of this proposal?

Answer: This proposal has been dropped because we could not obtain Treasury approval.

NEW MORTGAGE INSTRUMENTS

Question: Do you have statistics for 1981 which indicate, for member associations, how many new standard fixed rate long-term loans there were compared to the number of alternative instruments used?

Answer: The Bank Board has conducted two sample surveys regarding RRM volume. One indicated that for large associations only, about 70 percent of new conventional home mortgage commitments issued during January 1982 were for RRMs or similar variable rate mortgages. The other showed that for all associations about 45 percent of all conventional mortgages made during the first four months of 1982 were for RRMs or other variable rate loans.

In addition, data collected by the Bank Board indicate that nonstandard (i.e. variable rate and special mortgages such as SAM, GPM, GPAM, reverse annuity, etc.) conventional home mortgage loans held by FSLIC-insured associations amounted to $36.3 billion, or 7.1 percent of their total mortgage portfolio, at yearend 1981. A year earlier, this amount was $25.1 billion, or 5.1 percent of mortgage holdings. The $11.2 billion rise in such loans over the year accounted for 73 percent of total growth in conventional home mortgage holdings at associations over the same period.

Question: On September 30, 1980, the Bank Board proposed regulations for the creation of the Shared Appreciation Mortgage (SAM). Basically, a shared appreciation mortgage is a mortgage loan in which the borrower agrees to share the property's appreciation with the lender in return for an interest rate below that on a standard mortgage.

Also on September 30, 1980 the Bank Board proposed regulations for a Graduated Payment Adjustable Mortgage. The GPAM combines the graduated payment mortgage (GPM) with the re-negotiable rate mortgage (RRM). The GPM is designed to allow young home buyers to increase their mortgage payments as their incomes increase. The RRM allows lenders and borrowers to renegotiate interest rates based on prevailing market rates.

Have you received favorable responses to the SAM and the GPAM proposals?

Answer: The general response to both the SAM and GPAM proposals has been favorable, although not overwhelmingly so. Consumer groups had some reservations, especially concerning SAM.

Question: Last year you stated that one of the Bank Boards most significant regulatory actions of 1980 was its extension to Federal S&Ls of authority to issue re-negotiable rate mortgages (RRMs). What has been the public acceptance of these RRMs?

Answer: To the best of our knowledge public acceptance of RRMs has been good. Many consumers would, of course, prefer low fixed-rate loans, but most understand that the financial environment of recent years has made variable rate mortgages a necessity. Moreover, the current level of interest rates has made fixed-rate mortgages at recent market rates rather unattractive.

Question: What percentage of the new mortgages issued by S&Ls are of this form?

Answer: The Bank Board has conducted two sample surveys regard-RRM volume. One indicated that for large associations only, about 70 percent of new conventional home mortgage commitments issued during January 1982 were for RRMs or similar variable rate mortgages. The other showed that for all associations about 45 percent of all conventional mortgages made during the first four months of 1982 were for RRMs or other variable rate loans.

Question: Do you expect the popularity of this instrument to grow during the next year?

Answer: We would expect that the popularity of RRMs will rise moderately over the next several years, as the terms on such mortgages become more standardized as a result of market forces, and consumers become more familiar with them.

FSLIC - SAVINGS INVESTMENT

Question: Last year you estimated that at the end of Fiscal Year 1981, there would be 97,200,000 investors in insured associations with an average insured account of $5,573. What was the actual experience in FY 1981? You also estimated that at the end of FY 1982, you expected that there will be 103,900,000 investors with an average account value of $5,745. This would have represented an increase of approximately 3 percent in average account size in your FY 1981 estimates. How does this rate of savings growth compare to the actual growth rate currently being experienced?

Answer: The Bank Board collects data on a number of investors (actually number of accounts, which results in some double-counting of investors) only once a year in December. Consequently, the estimates contained in our budget justification, which is prepared late in the calendar year, must be based in large part on historical trend only through the preceding yearend. This together with the periodic introduction of a variety of new types of accounts in recent years (which has encouraged multiple account ownership), has caused our recent estimates to be wide of the mark. Actual data reported by FSLIC-insured associations for recent Decembers follow:

December	Number of Accounts	Average Account Size
1981	103,740,000	$4,938
1980	98,177,000	5,410
1979	88,182,000	5,211
1978	84,772,000	4,959
1977	79,356,000	4,755
1976	73,542,000	4,442
1975	67,595,000	4,108

The most recent data available are for last December. On the basis of this information it now seems probable that growth in number of accounts will slow in the current year and the average account size will rise again, since the substantial rise in number of accounts and decline in average account balance last year seems to have reflected the introduction of NOW accounts nationwide.

TARGETED ADVANCES PROGRAM

Question: In 1980, you initiated an effort known as the Targeted Advances Program (TAP). What is the current status of this program?

Answer: The Targeted Advances Program was terminated effective December 31, 1980. A total of $121 million in TAP advances were made under the program to 34 thrift institutions. All TAP advances were repaid by June 30, 1981.

PHOENIX PLAN MERGERS

Question: Please describe the characteristics of a Phoenix Plan Merger and provide examples of its recent use.

Answer: Currently, the "Phoenix" is the last possible solution available to the FSLIC short of liquidation. The Phoenix Plan Merger has the following major characteristics:

1. The management and directorate of the institution execute Purchase Agreement and Master Agreement with the FSLIC.

2. The Master Agreement provides for the issuance of Income Capital Certificates by the "Phoenix" to the FSLIC in return for Promissory Notes from the FSLIC. The FSLIC will usually agree to maintain some minimal net worth in Phoenix (usually 1% or 2%) through the purchase of the ICC's by cash or notes.

3. The Purchase Agreement is the contract through which the FSLIC agrees to purchase ICC's. It is similar to prior assistance agreements but vests far more control over the operations of the Association in the FSLIC. The salient operating controls are:

   a) The requirement of the submission of operating plans, budgets and reports of operations to the FSLIC or the local Supervisory Agent. All major operational decisions require review and pre-approval.

   b) The requirement that all Directors and Officers be approved by the FSLIC. This gives the Insurance Corporation the power to replace all or a portion of the management and directorate. (The Insurance Corporation agrees to indemnify the Director of a Phoenix).

   c) The "Phoenix" agrees to merge at the direction of the FSLIC.

The following Phoenix Plan Mergers have been approved by the Federal Home Loan Bank Board:

1) First Federal Savings & Loan, Rochester, New York
   9/81 Franklin Society Federal Savings (New York, NY)
   3/82 Ninth Federal Savings & Loan (New York, NY)
   3/82 Knickerbocker Federal Savings & Loan (New York, NY)

2) Hyde Park Federal Savings & Loan, Chicago, Illinois
   10/81 Reserve Savings & Loan (Elmhurst, Ill.)
   12/81 Palos Savings & Loan (Palos Heights, Ill.)
   (merged into Home Savings of America, L.A., California in 1/82).

3) First Federal Savings & Loan, Sauturce, Puerto Rico
   11/81 Pan American Savings & Loan (Rio Piedras, PR)

4) Talman-Home Federal Savings & Loan, Chicago, Ill.
   2/82 Unity Savings (Schaumberg, Ill.)
   2/82 Northwest Federal Savings & Loan (Chicago, Ill.)
   2/82 Alliance Savings, (Chicago, Ill.)

5) First Federal Savings & Loan of Chicago, Chicago, Illinois
   4/82 First Financial Savings & Loan (Downers Grove, Ill.)

6) Fidelity Savings & Loan of San Francisco, a Federal Savings & Loan
   4/82 Fidelity Savings & Loan of Oakland

FEDERAL-STATE COORDINATION

Question: In January, the Bank Board and the National Association of State Savings and Loan Supervisors convened two conferences principally to discuss ways of improving Federal-State coordination in supervisory resolutions of troubled institutions. What recommendations resulted from this meeting and what action does the Board intend to undertake to implement them?

Answer: The two Regulators' Conferences held in January addressed a variety of current issues of interest and concern to State and Federal officials with regulatory responsibility for the savings and loan industry. These included discussions regarding current and likely future economic conditions affecting savings and loans, major accounting issues and the effect of possible regulatory and statutory changes on the thrift industry. The agenda also addressed a variety of aspects regarding coordinated efforts among Federal and State officials to resolve troubled institutions including legal, examination and supervisory efforts.

At the recommendation of state participants, the Bank Board subsequently forwarded to all state departments a Bank Board contact list to facilitate better communication. The Bank Board also prepared a summary of the remarks of a State Commissioner detailing his advice on working with the FSLIC in resolving problem situations.

The Bank Board also proposed to consider seriously and, if feasible, adopt state proposals for improving the coordination and effectiveness of joint examination programs, including a system of alternate Federal-State examinations. The Bank Board is in the process of discussing different proposals with several states and continues to be prepared to adopt new procedures which satisfy both Federal and State requirements.

These conferences, which were a follow-up to a similar conference held in 1980, were attended by staff from a majority of the states as well as Bank Board staff and staff from the Federal Home Loan Banks. The general view of the participants was that these conferences contributed significantly to improving supervisory and regulatory coordination between the Bank Board and state savings and loan departments.

NEW INFLOW OF SAVINGS

Question: Your budget justification states that the net inflow of savings rose by $18.4 billion last year. Could you justify these figures relative to the figures contained on Page 5 of your opening statement?

Answer: The figures cited in our budget justification differ conceptually from those cited in our opening statement for several reasons:

1) The former are for the fiscal year ending September, whereas the latter are for the calendar year.

2) The former are for all member savings and loan associations, whereas the latter are for FSLIC-insured associations only.

In addition all figures cited in the budget justification include interest credited to deposits, whereas the statement refers to the deposit flow both with interest credited and without such credits, the latter being called "net new deposits received." Each concept is more useful for some purposes than the other.

Question: On Page B-5 of your justification you state that you expect the net inflow to rise by 68.5 percent and $31 billion in FY 1982. Is this still your best estimate as to the FY 1982 inflow?

Answer: During the first six months of the current fiscal year the net deposit gain (including interest credited) of FSLIC-insured associations has mounted to $18.7 billion. Since seasonal influences are less favorable in the second half of the fiscal period, the $31 billion estimated for FY 1982 as a whole still seems appropriate. Deposit flows are, of course, quite volatile, and estimates of future flow are subject to a wide margin of error.

MINORITY-MANAGED-AND- OWNED INSTITUTIONS

Question: Currently 80 insured associations qualify as minority-managed-and-owned. I would expect that these institutions are more severely affected by the recent economic difficulties in the entire financial community. What do you see as the future for these institutions and what steps is the Board taking to assist such minority institutions?

Answer: Many minority-managed and-owned associations are experiencing very difficult times. As a general rule, however, minority-managed associations have not been more severely affected by the current economic difficulties than other associations of similar size and operating conditions. Some of the weaker minority associations probably will be merged with stronger minority institutions, and when that is not possible, they will be merged with stronger majority institutions. Our Minority Association Development Division also provides these associations with management and technical assistance on a one-to-one-basis. We are also working with the Department of Treasury to expand participation by minority savings and loans in its bank deposit program.

FY 1981 SUPPLEMENTAL REQUEST

Question: For FY 1982, you are requesting a supplemental of $1,460,000 to cover increased pay. How much of the FY 1982 pay increase will the Board have to absorb? What would be the effect of not approving this supplemental?

Answer: The Board will absorb $690,000 of the pay increase. If the supplemental is not approved we would impose a freeze on filling vacancies and a promotion freeze. Such action would adversely affect our ability to carry out our statutory responsibilities at a time when the thrift industry needs more attention and scrutiny, not less.

COMPUTER COSTS

Question: Last year you requested a contingency fund of $50,000 for computer time. Your budget justification states that these funds would be used only if your in-house machine has extensive downtime during critical production or development periods. How much downtime has your computer system experienced to date during FY 1982?

Answer: The unscheduled downtime on both FHLBB computer systems to date during FY 1982 through April 30, amounts to a total of 162 hours. Since we have two computers, one can serve as backup to another for critical ADP projects with tight deadlines, such as payroll and insurance billing. In case of a computer room environmental problem that would affect both computer systems, such as a fire or prolonged failure of the air conditioning or electrical systems, then use of the contingency fund for outside ADP time would have to be made until recovery from the in-house environmental problem could be acheived.

Question: How much of these funds have been obligated so far?

Answer: None of these funds have been obligated to date.

Question: What is your request for this fund in FY 1983?

Answer: Our request for this fund in FY 1983 is $50,000.

ADDITIONAL EXAMINER POSITIONS

Question: Last year you asked for an additional 15 examiner positions for a total of 934. what is your current on-board employment for examiners?

Answer: Our current on-board employment is 935.

TRAINING PROGRAM

Question: Your request for training in FY 1982 was $256,000. Your current estimate for FY 1982 is $200,000. For FY 1983 you are requesting $250,000. How do you explain this yo-yo funding pattern?

Answer: In revising our original FY 1982 budget estimates, it was necessary to slash some of our more easily controllable line items to provide funds to cover unexpectedly large increases in some relatively uncontrollable line items. For example, our assessment by the Federal Financial Institutions Examination Council doubled from $80,000 to $160,000. Federal Telecommunications System costs assigned by GSA increased $84,000. Our training program had to suffer a $56,000 reduction in 1982 to help cover such large increased costs over our original budget estimates.

PRINTING AND REPRODUCTION

Question: In FY 1983 you will be required to contract with a private firm for the printing and updating of the Annotated Manual. You state that although initial costs may be higher in succeeding years, costs "should be less than under our current system." Exactly how much do you expect to spend on printing costs for the Manual in FY 1982 and FY 1983? What will the cost be under the new system in FY 1984?

Answer: Printing costs for the Manual are estimated at $110,000 and $156,000 for fiscal years 1982 and 1983, respectively, the 1983 estimate reflects one time set up costs under the new system.

With respect to the new system the Government Printing Office is now in the process of soliciting bids from private contractors for this work so we do not have firm estimates at this time. Hopefully, our FY 1984 printing costs for the Manual will be well under $100,000.

EQUIPMENT RENTALS

Question: Your budget justification contains $40,000 for "Miscellaneous Rentals." What specific items will be rented with these funds?

Answer: We plan to continue renting certain existing equipment in 1983 as follows:

Special ADP communications equipment
Dex machines (3)
Labeling machines (2)
Film processor
Sorter
Key punch and key verifiers (2)

TRAVEL AND TRANSPORTATION EXPENSES

Question: For FY 1983 you are requesting $595,000 for travel and transportation expenses. This is $95,000 more than was contained in your FY 1982 request and $199,721 or 50 percent more than the FY 1981 level. How do you justify such large increases in travel?

Answer: First our FY 1981 actual travel costs were abnormally low due to the severe cut in our FY 1981 limitation requests by the Congress, and the subsequent reduction and limitation placed on our travel funds by OMB in January 1981. We could have legitimately used at least $100,000 additional travel funds in 1981, and we feel that our ability to carry out our mission in 1981 was seriouly constrained by the substantially reduced travel funds. In contrast to our abnormally low actual costs of $395,279 in 1981, our 1980 travel costs were $462,501.

Our revised 1982 and 1983 estimates recognize the increasing and continuing problems in the thrift industry requiring much more frequent travel by several of our offices, and the increasing costs of traveling.

Question: In comparison of your FY 1982 travel budget request with your current estimate for FY 1982 reveals a number of significant changes. Why has travel for your Office of the Chairman increased from $16,000 to $40,000?

Answer: The problems in the thrift industry has resulted in a dramatic increase in the number of trips that the Chairman must make to consult with industry leaders and, in many cases, to assist in resolving difficult problem cases. In FY 1981 travel costs for the Office of the Chairman was $48,123 and our 1982 and 1983 estimates recognize the increased requirement.

Question: Why have you decreased travel for your Office of Community Investments and your Office of Examinations and Supervision?

Answer: With respect ot the Office of Community Investment the revised FY 1982 estimate reflects the reduction of 4 in the budgeted positions for this office and the consequent decrease in travel activity. With respect to the Office of Examinations and Supervision the minor decrease resulted from a reestimate based upon more current information.

SEVERANCE PAY

Question: For FY 1983 you are requesting $5,000 for Severance Pay. Your FY 1982 budget also contains $5,000 for this item. How much of the FY 1982 amount has been obligated to date for Severance? Please justify your requirements for these funds in FY 1983.

Answer: There have been no obligations to date for Severance Pay in FY 1982. The FY 1983 request of $5,000 is a contingent amount which will not be used for other purposes in the event that we incur no severance pay costs.

BOARD AND STAFF OFFICES EXPENSES

Question: This year you are requesting $1,806,000 for Rent, Communications and Utilities and $2,135,000 for Other Services. This represents increases of $215,000 and $380,000, respectively over the FY 1982 level for each of these accounts. Please list the specific items comprising these increases.

Answer: The specific items comprising these increases are shown on pages C-12 and C-14 of the Budget Justification and are listed below.

Rent, Communications and Utilities	
Equipment rental -	$ 75,000
Local telephone service -	20,000
Long Distance (FTS) -	70,000
Postage -	50,000
	$215,000

Other Services	
ADP sevices -	$ 92,000
Federal Financial Institutions Examination Council -	15,000
Special studies -	106,000
Training -	50,000
Contract audits -	15,000
Micrographic services -	92,000
Other miscellaneous -	10,000
	$380,000

OFFICE OF EXAMINATIONS AND SUPERVISION

Question: In FY 1982 you requested $6,650,000 for Travel and Transportation of Persons for you Office of Examinations and Supervision. In FY 1983 you are asking for $7,310,000. Please justify the $660,000 increase.

Answer: We have budgeted a ten percent increase in travel costs to cover anticipated increases in air fares, mileage rates and a larger number of high rate geographical areas. We anticipate incurring additional travel costs as a result of assigning examiners to temporary duty assignment requiring significant travel to assist in problem situations. The $7,310,000 budgeted for travel costs includes $300,000 for the training of state examiners.

BUILDING OPERATING EXPENSE

Question: Please submit a list of tenants occupying space in your building. Include the FY 80, 81, 82 and estimated 83 revenue from each tenant in terms of annual revenue and per square foot revenue.

Answer: The requested information is shown on the following two pages.

FHLBB

BUILDING OPERATING EXPENSE
(OFFICE TENANTS)

	FY 80		FY 81		FY 82 (1st six months)		FY 83 Est.	
Tenant	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)
FHL Mortg. Corp. (1)	$479,539	$16.54	-	-	-	-	-	-
FSLIC	125,812	14.80	$132,275	$15.56	$ 66,892	$15.74	$146,128	$17.19
Neighborhood Reinvestment Corporation (2)	244,037	23.48	519,142	17.90	432,618	17.90	-	-
Office of Finance	190,112	15.84	197,389	16.44	100,462	16.74	216,997	18.08

Notes: (1) Moved 10/1/80
(2) Will move 8/1/82

FHLBB
BUILDING OPERATING EXPENSE
RETAIL STORES

Tenant	FY 80		FY 81		FY 82 (1st six months)		FY 83 Est.	
	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)	Revenue	PSF (Annualized)
Standard Drugs (1)	-	-	-	-	-	-	$ 38,495	$19.81
Graffiti Records, Inc. (1)	-	-	-	-	$ 4,175	$22.81	16,689	22.81
Massey Shoes (1)	-	-	-	-	-	-	23,689	14.09
Liberty Gifts (1)	-	-	-	-	-	25.00	11,975	25.00
1725 "F" St., Inc.(2)	-	-	-	-	-	-	245,000	17.73
Crown Books (2)	-	-	-	-	-	-	54,000	15.43
Frankie Welch (3)	$ .361	-	$ 2,576	-	$15,543	15.00	24,324	15.72
Liberty Plaza Optical	9,401	$15.00	17,943	$14.61	9,576	15.60	19,149	15.59
Impressions	19,259	13.54	22,176	15.59	10,908	15.34	24,247	17.05
K&K Ladies Wear, Inc.	13,932	15.21	13,932	15.21	7,841	17.12	15,682	17.12

Notes: (1) New leases signed subsequent to December 1, 1981 and through June 1, 1982.
(2) These leases are in litigation on its terms.
(3) No rent received until tenant construction credit was completed in December 1981.

WORKLOAD

Question: Last year we noted that in several places in your budget justification you discussed the workload associated with the various functions performed by the Board, but the actual workload data was not presented in these sections, instead the sections described the work to be performed. At that time, we stated that we would like to see the actual work performed under each of the activities and an indication of how the work units have changed from those estimated in the previous budget request. Although your current justification contains more detail on the number of positions, workload data is still not included in many sections. Please prepare this information for the record and include it as part of your FY 84 justification.

Answer: We inadvertently omitted workload factors for two of our units, the Controller's Division, and the Office of District Banks. The following workload data is furnished for the two units.

Controller's Division

	1981	1982	1983
Payment Vouchers Processed:			
Travel Vouchers (Individual)	10,800	11,000	11,000
Travel Advances	150	150	150
Teleticketing vouchers	24	24	24
Airline scheduled payments	36	36	36
Transportaion of household goods vouchers	100	100	100
Miscellaneous other vouchers	7,197	7,200	7,200
Payrolls Processed:			
Regular	50	50	50
Supplemental payrolls	180	180	180
Bank Assessments	144	144	144
U.S. Treasury Deposits	250	250	250
Reports (other than payroll):			
Treasury	84	84	84
OMB	24	24	24
Department of Labor	4	4	4
Financial Statements (internal)	24	24	24
Payroll Reports:			
IRS	30	30	30
Various states	400	400	400
Unemployment reports	140	140	140
Various cities	100	100	100
Office of Personnel Management	102	102	102
Combined Federal Campaign	26	26	26
Union dues	26	26	26

Office of District Banks

	1981 Actual	1982 (Estimate)	1983 (Estimate)
Review of Bank operations other than budgets	1.7 man years	1.5 man years	1.8 man years
Analysis and recommendations on annual budgets from the 12 FHLBanks	.7 man years	.6 man years	.7 man years
Analysis of Bank operations or policy questions and preparation of recommendations or response	3.9 man years	3.4 man years	4.1 man years
Annual election and appointment of directors of the 12 FHLBanks	1.0 man year	1.0 man year	1.0 man year
Preparation and publication of monthly combined financial statements of the FHLBanks and other reports	1.3 man years	1.3 man years	1.3 man years
Communications services between the Board and the FHLBanks	1.0 man years 10,000 incoming and outgoing messages	1.0 man years 12,000 incoming and outgoing messages	1.0 man years 13,000 incoming and outgoing messages

NATIONAL CREDIT UNION ADMINISTRATION

STATEMENT OF EDGAR CALLAHAN, CHAIRMAN,

ACCOMPANIED BY:
CHARLES FILSON, PRESIDENT, CENTRAL LIQUIDITY FACILITY
JOHN SANDER, BUDGET OFFICER

BUDGET REQUEST

Senator LAXALT. We will proceed now to the National Credit Union Administration Central Liquidity Facility.

The Central Liquidity Facility is the central bank for the Nation's credit unions. It serves as a lender of last resort, providing funds to credit unions to meet liquidity needs when funds are not available from traditional sources of credit. The basic purpose of the Facility is to improve the general financial stability of credit unions by meeting their liquid needs and thereby encouraging savings. To become eligible for Facility services, credit unions invest in the capital stock of the Facility, and the Facility uses the proceeds of such investments and the proceeds of borrowed funds to meet the liquidity needs of credit union members.

The fiscal year 1983 budget request for the Central Liquidity Facility consists of: $600 million cumulative limitation on borrowing authority; a $1,368,000 limitation on administrative expenses; and a $709,632,000 limitation on loans.

Gentlemen, it is a pleasure to have you here today. Would you kindly proceed with your opening statement, Mr. Callahan.

Mr. CALLAHAN. Thank you, Senator.

GENERAL STATEMENT

Mr. Chairman, members of the subcommittee, I am pleased to be here today to discuss the fiscal year 1983 appropriation request for the National Credit Union Administration Central Liquidity Facility. Accompanying me are Mr. Charles Filson, the President of the Central Liquidity Facility, and Mr. John Sander, the Budget Officer for the National Credit Union Administration.

The Central Liquidity Facility has now successfully completed 2½ years of operation in fulfilling its role as a liquidity lender for credit unions. Our operational performance has been detailed in the annual report previously submitted.

During this time, liquidity loan demand by CLF members has been low. Although there were isolated cases of liquidity needs, once again in 1982 credit union liquidity remained high. The primary reason for this is the fact that interest rates remain high, causing lower consumer spending than anticipated. Should the administration's projections for economic recovery later this year materialize, we anticipate that the lower interest rates coupled with intense competition for interest-sensitive accounts will cause an increase in credit union liquidity needs that may exceed the industry's capacity. Accordingly, we request that the CLF borrowing authority for 1983 remain at the $600 million level.

The CLF has funded liquidity needs, to date, through the Federal Financing Bank. As indicated in our budget justification, we are very close to receiving a decision from the Attorney General regarding the remaining legal issue to be resolved prior to initiating a discount note program. This decision will enable the CLF to proceed with the underwriters on the plans for private financing.

Lastly, as the new Chairman of the National Credit Union Administration Board, I have evaluated the CLF budget. As a result of this reevaluation, I am submitting for your consideration a revised budget requesting $381,000 less than originally requested for administrative expenses.

Mr. Chairman, I would be pleased to answer any questions you or other members of the subcommittee may have.

Senator LAXALT. Thank you, Mr. Callahan.

PRIVATE MARKET FINANCING

In your fiscal year 1982 budget justification, you indicated your intention to begin funding activities in the private capital markets and end your dependence on the Federal Financing Bank during fiscal year 1982. To date, however, this proposal has not been undertaken due to legal problems; in particular, an opinion by the Comptroller General that the obligations issued on behalf of the CLF would not be full faith and credit obligations. I understand you have now requested the Attorney General's opinion on this issue. When do you expect an opinion might be rendered?

Mr. CALLAHAN. We hope it will arrive very soon, Senator.

Senator LAXALT. And that means what?

Mr. CALLAHAN. Because of the mixed signals, I think at this time it would be safe to say we will have to evaluate the opinion, whatever it is, and move forward from that decision.

Senator LAXALT. If the Attorney General agrees with the Comptroller General, will you ask for changes in your authorizing legislation?

Mr. CALLAHAN. Frankly, I would have to evaluate the terms as outlined and explore our options before we could move forth at that time.

Senator LAXALT. So there would be a question if the decision comes down against you as to whether you need legislation at all or what form it would take; is that correct?

Mr. CALLAHAN. That is correct.

Senator LAXALT. Have you discussed this issue with your authorizing committees?

Mr. CALLAHAN. Yes, we have.

Senator LAXALT. So they are fully apprised where you are.

Mr. CALLAHAN. Yes, sir.

CLF ACTIVITIES

Senator LAXALT. The trend toward greater competition among financial institutions, fostered by the move to deregulate, and investment options available to savers has placed increased pressure on credit unions. Do you expect this trend to continue and, if so, what would be the effect on the activities of the facility?

Mr. CALLAHAN. Well, Senator, we certainly expect the activity to continue and pressures would, in fact, increase. Because of these competitive pressures, we would certainly see that should interest rates come down; for example, that the pressures on credit unions for liquidity would certainly be there and the CLF should stand ready to support liquidity needs as a lender of last resort.

SUBMITTED QUESTIONS

Senator LAXALT. I have several detailed questions, but an overly curious Senator has taken us beyond our time limit. I will, therefore, submit the remainder of the committee questions to you for response in the record.

Thank you all for coming, and I thank you all for a job well done.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

LIMITATION ON OBLIGATION

Question: This year you are requesting a limitation of $709,623,000 on obligations for the Facility. Your estimate of gross obligations incurred for FY 82 is $330,136,000. Why is there a discrepancy between your expected gross obligations and the limitation on obligations you are requesting?

Answer: The difference is a result of two factors:

a. It is essential for the CLF in its role as lender of last resort to be positioned to meet the unexpected emergency needs of the credit union industry. Since such events cannot be planned for, there is an inherent margin of error in projected gross obligations.
b. The financial market in which the CLF operates is very difficult to predict. Economic uncertaintees coupled with a very volatile market contribute heavily to such discrepancies.

Question: Last year, the Chairman of the NCUA, Mr. Connell, indicated during the House Appropriations Subcommittee hearing that he had some reservations concerning Congress putting a limitation on loans and a limitation on your borrowing authority. Do you also have concerns with these limitations?

Answer: Yes. We believe that a lending limitation serves no real purpose since the funds that can be borrowed and thus lended to credit unions are limited by the borrowing limitation. A credit limitation only serves to limit the turnover of the loan portfolio - which could result in deliberate extensions of maturities to avoid exceeding the ceiling.

OUTSTANDING BALANCES END OF YEAR

Question: At the end of FY 82, you expect to have $231,161,000 in outstanding loans. Your projection for FY 83 indicates that you estimate outstanding loans to be $352,319,000 at the end of this period. What is your most current estimate for FY 82 and FY 83?

Answer: There are no changes in these estimates.

Question: Why do these estimates vary?

Answer: Although there no changes in our estimates it must be recognized that our projections are based on economic forecasts. These forecasts are subject to reevaluation as the volatile financial markets change.

Question: What effect will these various estimates have on the Treasury?

Answer: If the CLF borrows from the private markets rather than the FFB, it will have no effect on Treasury. If the CLF continues to borrow exclusively from the FFB, all such borrowings will effect Treasury, since the borrowings are considered outlays. In either case, the CLF must stay within its statutory and appropriation limi-

ADMINISTRATIVE EXPENSES

Question: In your February budget justification, you requested $1,749,000 for administrative expenses. On Page 2 of your opening statement, however, you have proposed reducing this funding request to $1,368,000. What are the factors which contributed to this proposed reduction?

Answer: The factors which contributed to the proposed reductions are: (1) Reassessment of data processing support indicated that the CLF could reduce its internal accounting and managerial reporting demands; (2) Decentralization of NCUA's central office, reallocation of its resources and restructuring a number of NCUA programs are expected to improve efficiency and reduce expenses.

Question: On Page 2 of your opening statement, you present a table which compares your original budget request with your proposed revised request. In this table it appears that every account funded through administrative expenses would be reduced except for supplies -- which would remain the same -- and travel and transportation of things which would be increased from $11,000 to $15,000. What is the justification for the proposed increase in this account?

Answer: The increase in travel and transportation of $4,000 is attributed to anticipated travel expense related to the marketing and implementation of the CLF Discount Note Program.

FEDERAL INCOME TAXES

Question: I understand that legislation has been proposed which would exempt the CLF from income taxes retroactive to October 1, 1979. What is the status of this legislation?

Answer: It is part of S.1720 introduced by Senator Garn on October 7, 1981. NCUA testified before the Senate Banking Committee on October 30, 1981. This bill is currently awaiting further committee action.

The Joint Committee on Taxation had been consulted during 1980/81 and the language in the amendment reflects changes which this committee's staff requested.

The House Banking Committee (staff) has approved the language and has an understanding with the Ways and Means Committee staff. When an appropriate vehicle is found in Ways and Means, the amendment will be introduced by Congressman St. Germain.

Question: In a similar vein, an outside legal counsel, recently rendered an opinion that the CLF is not liable for income taxes since it operates as an activity of the Federal Government. As a result of this opinion, you are currently awaiting a ruling by the IRS as to the tax status of the CLF. When do you estimate a ruling will be made by the IRS?

Answer: Based on discussion with IRS staff, we estimate that a ruling will be made sometime this summer.

PROTRACTED LOAN PROGRAM

Question: During FY 81 seven protracted loans totaling $14 million were extended to credit unions. What was the amount of each of these loans:

Answer:

Amount	Maturity
$ 990,000	5 years
1,700,000	2 years
4,300,000	4 years
2,500,000	3 years
2,300,000	1 year
2,300,000	2 years
50,000	3 years

Question: Why was it necessary for the CLF to extend these loans?

Answer: The credit unions who borrowed from the CLF were originally borrowing short-term at high and volatile rates. The CLF loan replaced these loans to provide the credit unions fixed costs of funds and the opportunity to restructure their capital base and asset structure.

Question: What is the average maturity of protracted loans?

Answer: Weighted average of the loans are approximately 3 years.

SEASONAL LOANS

Question: During FY 81, credit unions in four States received 11 seasonal loans totaling approximately $10 million. What was the purpose and amount of each of these loans?

Answer: The purposes of the loans primarily dealt with two categories: (1) educational type credit unions in need of liquidity to bridge the summer months when they are susceptible to losing capital as a result of either no payroll deductions or greatly reduced payroll deductions; (2) agricultural type credit unions in need of liquidity to fund seasonal crop planting.

Question: Unlike short-term credit, seasonal credit management requires a substantial amount of analytic work to establish seasonal patterns in advance. What economic variables affect the seasonal patterns?

Answer: The variables are related to the "common bond" of each credit union's field of membership. It is the characteristics of the common bond that influence the season pattern of liquidity. This is illustrated in the above answer which deals with educational and agricultural type credit unions.

Question: How do you determine the seasonal patterns for individual credit unions?

Answer: Seasonal patterns can be established by analyzing historical data collected by NCUA. This data coupled with monthly cash flow data prepared by the credit union can identify and support a season pattern.

DIVIDENDS

Question: You have declared dividends of 10% in the first quarter, 12% in the second quarter, 13% in third quarter and 15% in the fourth quarter of 1981. How will the current economic conditions and your projections of the change in the conditions affect the earnings and dividends of the facility during FY 82 and FY 83?

Answer: Economic conditions have a direct bearing on the level of interest rates. Our capital out of which we pay administrative expenses and dividends is all invested in short-term maturities which reflect current economic conditions and accordingly the CLF's dividend rate.

SES BONUS

Question: How much have you included in your budget request for SES bonuses during FY 83?

Answer: No funds have been budgeted for SES bonuses during FY 83.

SUBCOMMITTEE RECESS

We will now stand in recess until May 18 at 10 a.m., when we will hear the testimony from the Department of Housing and Urban Development.

Thank you very kindly, Mr. Callahan, Mr. Sander, and Mr. Filson.

[Whereupon, at 11:12 a.m. Tuesday, May 11, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, May 18.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MAY 18, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m. in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senator Garn.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY

ACCOMPANIED BY:

- DONALD I. HOVDE, UNDER SECRETARY
- E. S. SAVAS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
- PHILIP ABRAMS, GENERAL DEPUTY ASSISTANT SECRETARY FOR HOUSING-DEPUTY FEDERAL HOUSING COMMISSIONER
- JOHN KNAPP, GENERAL COUNSEL
- ROBERT W. KARPE, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
- STEPHEN BOLLINGER, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT
- WARREN T. LINDQUIST, GENERAL MANAGER, NEW COMMUNITY DEVELOPMENT CORPORATION
- ANTONIO MONROIG, ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY
- STEPHEN MAY, ASSISTANT SECRETARY FOR LEGISLATION AND CONGRESSIONAL RELATIONS
- JUDITH L. TARDY, ASSISTANT SECRETARY FOR ADMINISTRATION
- CHARLES L. DEMPSEY, INSPECTOR GENERAL
- LANCE WILSON, EXECUTIVE ASSISTANT TO THE SECRETARY
- DANIEL HUGHES, DEPUTY UNDER SECRETARY FOR FIELD COORDINATION
- JUNE KOCH, DEPUTY UNDER SECRETARY FOR INTERGOVERNMENTAL RELATIONS
- ALBERT J. KLIMAN, DEPARTMENTAL BUDGET OFFICER

SUBCOMMITTEE PROCEDURE

Senator GARN. The subcommittee will come to order.

Mr. Secretary, I would like to welcome you and your colleagues here this morning. As you know, the subcommittee established its hearing schedule in mid-February and to date we have only had to move one hearing. Today we are faced with a scheduling conflict since the emergency supplemental came over from the House of Representatives and the full Appropriations Committee will be meeting to mark up the bill at any time. I don't know when a quorum will be established, but at that time I will have to leave you and when the other subcommittee members arrive, they will have the same problem.

I apologize for any inconvenience this might cause you. Please go ahead and start your testimony. I can't tell you how much I would appreciate it if your secretarial sensitivities would not be too greatly offended by the hearing procedure now that you understand the nature of the problem which has developed.

Secretary PIERCE. I understand the nature of the problem and I will do that. Whenever you think that we should adjourn, please do so and we will be back tomorrow.

Senator GARN. OK, if you would begin, we will be back tomorrow. However, I do have an emergency call I am trying to return, so if you would start, Wally Berger will listen attentively. [Laughter.]

Secretary PIERCE. Thank you very much.

OPENING STATEMENT

Mr. Chairman, it is my pleasure to appear before this committee, to present the 1983 HUD budget. With your permission, Mr. Chairman, I will present a shortened version of my statement, stressing the rationale for the budget proposals. I will then submit the entire statement for the record.

SHIFT IN HOUSING POLICY

This budget reflects the administration's fundamental shift in housing policy. This new policy is based on the premise that the only real solution to the Nation's housing problems is to place greater reliance on the marketplace, to enhance individual freedom of housing choice, and to reduce Federal spending and regulatory restrictions.

The basic thrust of our new housing policy is an emphasis on existing housing to provide for the shelter needs of the Nation's poor, as opposed to costly, long-term commitments for the construction of new housing. Because of this emphasis on existing housing stock, a significant amount of previously enacted budget authority is no longer necessary. Consequently, we are proposing a rescission in 1982 of nearly $6 billion in budget authority for subsidized housing. This proposal has been reduced by some $3.4 billion from the $9.4 billion rescission initially proposed.

ADDITIONAL FUNDS FOR FINANCIAL ADJUSTMENTS

This reduction in the amount of budget authority proposed for rescission is tied directly to the recommendation of the Cabinet Working Group on Housing Policy, which I chaired. As you know, the President endorsed the Working Group's recommendation to help a total of 70,000 section 8 units move from the processing pipeline to actual construction—the additional $3.4 billion for amendments to meet cost increases and financing adjustments for previously approved projects.

BALANCED HOUSING STRATEGY

The fiscal year 1983 budget also reflects the Federal Government's responsibility to help provide safe, decent, and sanitary shelter for needy families. The real challenge we share, both the administration and the Congress, is to meet the housing needs of the poor in a responsible manner. In our view, continuation of large-scale, long-term spending programs will do more harm to the pocketbooks of the many than will benefit those few families residing in newly constructed subsidized housing.

The wide range of programs contained in the Department's budget request for 1983 represents an effort to provide a balanced strategy designed to integrate the best of the past with new ideas to assure an adequate supply of affordable rental as well as owner-occupied housing for low- and moderate-income persons.

INTEREST RATE OUTLOOK

We recognize that in the long run the only real solution to meeting this Nation's housing needs is to bring inflation under control and for interest rates to drop to more realistic levels. The President's economic recovery program, aimed at achieving this objective, has only just begun. The process of reversing decades of deficit spending will take time. But we are seeing clear evidence that at long last inflation is receding. I am hopeful that, once the financial marketplace believes that we will stick to our program to lick inflation, interest rates also will decline. Even now we are seeing a modest drop.

The proposed program of the Department represents a comprehensive approach to the housing problems of this country. We have identified the areas that the private market can best serve and have provided incentives for them to do so. We have identified areas which they will probably not be able to serve and have proposed government solutions to these problems.

AVAILABILITY-AFFORDABILITY STRATEGY

The mix of programs I am presenting to you today represents an overall strategy to enhance the supply of housing for our target population as well as to insure our ability to meet the costs. This is our availability-affordability strategy. It is cost effective and within our means to sustain over the years ahead. We raise no false hopes which cannot be fulfilled. This integrated, balanced program offers the best means to provide good quality, affordable housing for those we seek to serve.

I believe that it is vital that every American have a realistic expectation of homeownership through hard work and sound financial planning. We propose to confront the pressing problem of housing financing by stimulating the use of the vast resources of the private pension funds for home mortgages and by targeting the use of mortgage revenue bonds to the first-time homebuyer. To assure that producers can respond to the demand for affordable housing, the Department is engaged in a variety of regulatory reforms and has undertaken a joint venture with the private sector to stimulate market activity.

Through construction projects, technical assistance, and conferences, we are encouraging local governments to work with builders and community groups to cut regulations affecting housing production in order to make housing more affordable. The key point is that local efforts are voluntary, with no Federal funds necessary.

Making housing more affordable is only part of the solution to homeownership. Along with working to solve the problem of money supply, we are seeking ways to broaden Federal participation in the use of new mortgage instruments such as the shared appreciation mortgage (SAM), shared equity mortgage (SEM), and growing equity mortgage (GEM). It is about time that the Federal Government caught up with the creative solutions to financing being developed by innovative sellers and buyers in the conventional marketplace.

PRESERVATION OF EXISTING STOCK

While homeownership may be the dream, the reality is that many persons, especially low-income families and the elderly, are unable or unwilling to make the long-term financial commitment. The need for decent, affordable rental housing of all sizes and types has never been more vital. In the year ahead, we must work closely with the private sector to guarantee that our rental population can meet its requirements for housing. We can no longer afford, if we ever could, to heavily subsidize rental housing production. A better approach is to concentrate our limited resources to extend the life of our existing stock and facilitate production for the special needs of elderly and handicapped persons. We plan extensive efforts to rehabilitate low-income rental housing and modernize public housing.

MODIFIED CERTIFICATES

Furthermore, an essential component of our efforts to assure low- and moderate-income rental housing involves the administration's plan to continue and upgrade the section 8 existing housing program, the most cost-effective feature of section 8 housing. Modified certificates, popularly known as vouchers, achieve the dual purpose of assisting low-income families to meet their rent payment while also acting as an inducement for landlords to keep their rental housing adequately maintained. The increased demand for rental housing, represented by the greater purchasing power of families armed with vouchers, should help prevent further deterioration of housing stock.

HUD MANAGEMENT IMPROVEMENTS

Now, Mr. Chairman, I would like to outline the major management improvements which we have implemented during the past year.

Last year you expressed your strong concern that the Department use its money more efficiently. This is a concern I share and today I am pleased to report that we have taken great strides to improve the management of the Department. We are accomplishing much in the effort to minimize fraud and waste. I am proud to report that the professional employees at HUD are contributing admirably toward the accomplishment of that goal. I feel this is testimony to both our concerted training and employee awareness efforts and the dedication of our employees.

DEBT COLLECTION EFFORTS

A prime example of our efforts to improve management is in the area of debt collection. There has been much evidence of mismanagement arising from slack debt collection efforts during the past several years. We have found that approximately $1.5 billion of amounts owed the Department are delinquent. I have set up a special task force to remedy this situation and the result of these efforts, thus far, is evidenced by the increased cash collections for five targeted program areas. Collections have increased 16.7 percent overall in the first quarter of this fiscal year over the average quarter of last year and in 1982 and 1983 we estimate the collection of $75 million and $125 million, respectively, as the result of our increased collection efforts.

FRAUD AND WASTE CONTROL

In our continuing effort to minimize the occurrences of fraud and waste, I have appointed a departmental committee chaired by HUD's Inspector General. Recognizing that we do have problems with program management as well as resources and asset management, this committee advises me on the progress of our efforts to remedy these problems.

I also have initiated an employee awareness program within HUD which includes such elements as the issuance of information bulletins which alert managers to schemes used by program participants to misuse HUD funds for personal gains, as well as training courses for auditors and inspectors'

Another management change, which I believe will lead to improved program administration, is my decision to place increased responsibility and authority in the hands of the regional administrators. Located throughout the country, these officials represent the Department at a point which is much closer to where our housing and community development programs actually are delivered to the people.

IMPROVED PROGRAM DELIVERY

We also are improving the implementation of the community development block grant program, particularly with the shifting of responsibility for the direct administration of the small cities program to the States. This is an excellent example of a much needed and long overdue change in the way the Department conducts its business. Instead of Federal bureaucrats attempting to screen and select applicants for the allocation of some $1 billion in community development funds, this task is now being assumed by the States.

Another important area in which we have made marked progress in the delivery of our programs relates to regulatory improvements and deregulation. Since April 6, 1981, I initiated a departmental process intended to carry out the deregulatory objectives of the administration—and we have made substantial progress in this regard. Under the leadership of the General Counsel, as Deregulation Officer for the

Department, we are currently instituting significant changes intended to improve both the quality of HUD regulations and the efficiency of the process by which they are developed and issued. To accomplish these goals, a new regulations unit has just been established in the Office of the General Counsel, thus consolidating in one place the full responsibility for this process.

At this point, Mr. Chairman, I will highlight the specifics of the 1983 budget request.

HIGHLIGHTS OF 1983 BUDGET

Because the budget does not propose any new budget authority for the section 8 and public housing programs, we are requesting a net of $685 million in total budget authority for the Department in 1983. This consists of $5.9 billion of new authority requested, partially offset by $5.2 billion in proposed rescissions.

For 1983, the major budget authority requests include $1.1 billion for public housing operating subsidies, $3.45 billion for community development block grants, and $440 million for urban development action grants. The requests for the block grant and action grant programs are at the same funding levels as in 1982.

Outlays in 1983 are projected at $13.1 billion, a decrease of $1.5 billion from 1982. Within the $13.1 billion total are an estimated $7.4 billion for housing payments and $3.4 billion for community development block grants.

Fiscal year 1983 employment at HUD will decline to an estimated 14,000 full-time permanent employees from 14,300 estimated at the end of 1982 and 15,122 actual employees at the end of 1981.

SECTION 8 COMMITMENTS

All new commitments for section 8 subsidized housing units in 1983 will be made through the use of authority recaptured from prior-year commitments. Moreover, the 121,615 units to be approved in 1983 predominately will be existing units with the only new construction approvals being 10,000 units under the section 202 program. These new construction units also will receive section 8 support, consistent with existing policies.

While we do not plan commitments for additional section 8 or public housing new construction or substantial rehabilitation in 1983, there still is considerable construction activity in the pipeline from past commitments. For the period 1982 to 1983, nearly 553,000 units are projected to be completed under the section 8, public housing, and section 235 programs.

A major housing program initiative in the 1983 budget is the section 8 modified certificate program which will provide assistance to an estimated 106,615 units. The average annual cost for these units will be $2,000 per unit for a period of 5 years, with the 1983 program level paid for through the use of $1.1 billion of recaptured authority.

PUBLIC HOUSING OPERATING SUBSIDIES

The Department also is requesting $1.1 billion for public housing operating subsidies. This request is based on adoption of several important measures which should mean substantial future budgetary savings. Essentially, these measures are premised on the belief that tenants should assume a greater share of their monthly rent requirement. In addition, we anticipate less energy consumption, which is partially attributable to the positive impact of modernizing public housing projects.

Because it has a direct impact on the operation of public housing projects, modernization of these projects remains a high priority of the Department. In 1983, we propose funding of over $980 million of capital improvements, the same level as in 1982. We intend, also, to give public housing agencies the opportunity to cancel their outstanding reservations for new construction and to use a portion of the recaptured budget authority for modernization of existing projects.

COMMUNITY DEVELOPMENT ASSISTANCE

In the area of community development assistance to State and local governments, the Department is requesting $3.5 billion under the community development block grant program and $440 million under the urban development action grant program. These funding levels are the same as 1982 and emphasize the administration's continuing commitment to the community and economic development needs of the Nation's cities and towns.

The 1983 budget also contains a number of new community development initiatives. One is the proposed rental rehabilitation grants program. Under this proposal, which is tied to the section 8 modified certificate program, grant assistance would be provided to States and cities to finance part of the cost of rehabilitating 30,000 rental units. The new program is intended to replace the section 312 rehabilitation loan and section 8 moderate rehabilitation programs. Upon enactment of the authorizing legislation, we will submit a formal budget request of $150 million for this new program.

Another community development initiative—which also complements the Department's housing efforts—is contained in the urban homesteading program. For 1983, the budget requests a $12 million appropriation, but with a new approach. Of the amount requested, $9 million would be available to continue the single-family homesteading program and $3 million would be used to demonstrate the feasibility of a multifamily homesteading program.

ENTERPRISE ZONES

A most significant and far-reaching new initiative is the administration's proposed Enterprise Zone Tax Act of 1982. This legislation is intended to create a favorable climate to enable private enterprise to revive economically depressed areas through tax reductions and regulatory relief at the Federal, State, and local levels. This approach to redevelopment is unique in recent Government history, because it depends on the private sector to create jobs. This will be the foundation for long-term economic revitalization rather than the creation of elaborate Government spending programs which historically have failed to do the job. Because only modest administrative costs at HUD are required to implement this program, we are not requesting any appropriation for it.

Finally, I would like to highlight the budget requests of $20 million to continue our research efforts and $5.7 million for the fair housing assistance program. The latter request will enable the Department to reimburse State and local agencies for handling discrimination complaints and to continue support to community housing resource boards.

Thank you, Mr. Chairman, I will be happy to answer any questions you might have.

[The statement follows:]

STATEMENT OF SECRETARY SAMUEL R. PIERCE, JR.

IT IS MY PLEASURE TO APPEAR BEFORE THIS COMMITTEE, TO PRESENT THE 1983 HUD BUDGET.

THIS BUDGET REFLECTS THE ADMINISTRATION'S FUNDAMENTAL SHIFT IN HOUSING POLICY. THIS NEW POLICY IS BASED ON THE PREMISE THAT THE ONLY REAL SOLUTION TO THE NATION'S HOUSING PROBLEMS IS TO PLACE GREATER RELIANCE ON THE MARKET PLACE, TO ENHANCE INDIVIDUAL FREEDOM OF HOUSING CHOICE, AND TO REDUCE FEDERAL SPENDING AND REGULATORY RESTRICTIONS.

THE BASIC THRUST OF OUR NEW HOUSING POLICY IS AN EMPHASIS ON EXISTING HOUSING TO PROVIDE FOR THE SHELTER NEEDS OF THE NATION'S POOR, AS OPPOSED TO COSTLY, LONG-TERM COMMITMENTS FOR THE CONSTRUCTION OF NEW HOUSING. BECAUSE OF THIS EMPHASIS ON EXISTING HOUSING STOCK, A SIGNIFICANT AMOUNT OF PREVIOUSLY ENACTED BUDGET AUTHORITY IS NO LONGER NECESSARY. CONSEQUENTLY, WE ARE PROPOSING A RESCISSION IN 1982 OF NEARLY $6 BILLION IN BUDGET AUTHORITY FOR SUBSIDIZED HOUSING. THIS PROPOSAL HAS BEEN REDUCED BY SOME $3.4 BILLION FROM THE $9.4 BILLION RESCISSION INITIALLY PROPOSED.

THIS REDUCTION IN THE AMOUNT OF BUDGET AUTHORITY PROPOSED FOR RESCISSION IS TIED DIRECTLY TO THE RECOMMENDATION OF THE CABINET WORKING GROUP ON HOUSING POLICY, WHICH I CHAIRED. AS YOU KNOW, THE PRESIDENT ENDORSED THE WORKING GROUP'S RECOMMENDATION TO HELP A TOTAL OF 70,000 SECTION 8 UNITS MOVE FROM THE PROCESSING PIPELINE TO ACTUAL CONSTRUCTION. TO ACCOMPLISH THIS OBJECTIVE REQUIRES MAKING AVAILABLE, IN 1982, THE ADDITIONAL $3.4 BILLION FOR AMENDMENTS TO MEET COST INCREASES AND FINANCING ADJUSTMENTS FOR PREVIOUSLY APPROVED PROJECTS.

THE FISCAL YEAR 1983 BUDGET ALSO REFLECTS THE FEDERAL GOVERNMENT'S RESPONSIBILITY TO HELP PROVIDE SAFE, DECENT AND SANITARY SHELTER FOR NEEDY FAMILIES. THE REAL CHALLENGE WE SHARE, BOTH THE ADMINISTRATION AND THE CONGRESS, IS TO MEET THE HOUSING NEEDS OF THE POOR IN A RESPONSIBLE MANNER. IN OUR VIEW, CONTINUATION OF LARGE-SCALE, LONG-TERM SPENDING PROGRAMS WILL

DO MORE HARM TO THE POCKETBOOKS OF THE MANY THAN WILL BENEFIT THOSE FEW FAMILIES RESIDING IN NEWLY CONSTRUCTED SUBSIDIZED HOUSING.

THE WIDE RANGE OF PROGRAMS CONTAINED IN THE DEPARTMENT'S BUDGET REQUEST FOR 1983 REPRESENTS AN EFFORT TO PROVIDE A BALANCED STRATEGY DESIGNED TO INTEGRATE THE BEST OF THE PAST WITH NEW IDEAS TO ASSURE AN ADEQUATE SUPPLY OF AFFORDABLE RENTAL AS WELL AS OWNER-OCCUPIED HOUSING FOR LOW- AND MODERATE-INCOME PERSONS.

WE RECOGNIZE THAT IN THE LONG RUN THE ONLY REAL SOLUTION, TO MEETING THIS NATION'S HOUSING NEEDS, IS TO BRING INFLATION UNDER CONTROL AND FOR INTEREST RATES TO DROP TO MORE REALISTIC LEVELS. THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM, AIMED AT ACHIEVING THIS OBJECTIVE, HAS ONLY JUST BEGUN. THE PROCESS OF REVERSING DECADES OF DEFICIT SPENDING WILL TAKE TIME. BUT WE ARE SEEING CLEAR EVIDENCE THAT AT LONG LAST INFLATION IS RECEDING. I AM HOPEFUL THAT, ONCE THE FINANCIAL MARKETPLACE BELIEVES THAT WE WILL STICK TO OUR PROGRAM TO LICK INFLATION, INTEREST RATES ALSO WILL DECLINE. EVEN NOW WE ARE SEEING A MODEST DROP.

THE PROPOSED PROGRAM OF THE DEPARTMENT REPRESENTS A COMPREHENSIVE APPROACH TO THE HOUSING PROBLEMS OF THIS COUNTRY. WE HAVE IDENTIFIED THE AREAS THAT THE PRIVATE MARKET CAN BEST SERVE AND HAVE PROVIDED INCENTIVES FOR THEM TO DO SO. WE HAVE IDENTIFIED AREAS WHICH THEY WILL PROBABLY NOT BE ABLE TO SERVE AND HAVE PROPOSED GOVERNMENT SOLUTIONS TO THESE PROBLEMS.

THE MIX OF PROGRAMS I AM PRESENTING TO YOU TODAY REPRESENTS AN OVERALL STRATEGY TO ENHANCE THE SUPPLY OF HOUSING FOR OUR TARGET POPULATION AS WELL AS TO ENSURE OUR ABILITY TO MEET THE COSTS. THIS IS OUR "AVAILABILITY - AFFORDABILITY" STRATEGY. IT IS COST EFFECTIVE, AND WITHIN OUR MEANS TO SUSTAIN OVER THE YEARS AHEAD. WE RAISE NO FALSE HOPES WHICH CANNOT BE FULFILLED. THIS INTEGRATED, BALANCED PROGRAM OFFERS THE BEST MEANS TO PROVIDE GOOD QUALITY, AFFORDABLE HOUSING FOR THOSE WE SEEK TO SERVE.

I BELIEVE THAT IT IS VITAL THAT EVERY AMERICAN HAVE A REALISTIC EXPECTATION OF HOME OWNERSHIP THROUGH HARD WORK AND SOUND FINANCIAL PLANNING. WE PROPOSE TO CONFRONT THE PRESSING PROBLEM OF HOUSING FINANCING BY STIMULATING THE USE OF THE VAST RESOURCES OF THE PRIVATE PENSION FUNDS FOR HOME MORTGAGES AND BY TARGETING THE USE OF MORTGAGE REVENUE BONDS TO THE FIRST-TIME HOMEBUYER. TO ASSURE THAT PRODUCERS CAN RESPOND TO THE DEMAND FOR AFFORDABLE HOUSING, THE DEPARTMENT IS ENGAGED IN A VARIETY OF REGULATORY REFORMS AND HAS UNDERTAKEN A JOINT VENTURE WITH THE PRIVATE SECTOR TO STIMULATE MARKET ACTIVITY. THROUGH CONSTRUCTION PROJECTS, TECHNICAL ASSISTANCE AND CONFERENCES, WE ARE ENCOURAGING LOCAL GOVERNMENTS TO WORK WITH BUILDERS AND COMMUNITY GROUPS TO CUT REGULATIONS AFFECTING HOUSING PRODUCTION IN ORDER TO MAKE HOUSING MORE AFFORDABLE. THE KEY POINT IS THAT LOCAL EFFORTS ARE VOLUNTARY, WITH NO FEDERAL FUNDS NECESSARY.

MAKING HOUSING MORE AFFORDABLE IS ONLY PART OF THE SOLUTION TO HOMEOWNERSHIP. ALONG WITH WORKING TO SOLVE THE PROBLEM OF MONEY SUPPLY, WE ARE SEEKING WAYS TO BROADEN FEDERAL PARTICIPATION IN THE USE OF NEW MORTGAGE INSTRUMENTS SUCH AS THE SHARED APPRECIATION MORTGAGE (SAM), SHARED EQUITY MORTGAGE (SEM) AND GROWING EQUITY MORTGAGE (GEM). IT IS ABOUT TIME THAT THE FEDERAL GOVERNMENT CAUGHT UP WITH THE CREATIVE SOLUTIONS TO FINANCING BEING DEVELOPED BY INNOVATIVE SELLERS AND BUYERS IN THE CONVENTIONAL MARKETPLACE.

WHILE HOMEOWNERSHIP MAY BE THE DREAM, THE REALITY IS THAT MANY PERSONS, ESPECIALLY LOW-INCOME FAMILIES AND THE ELDERLY, ARE UNABLE OR UNWILLING TO MAKE THE LONG-TERM FINANCIAL COMMITMENT. THE NEED FOR DECENT, AFFORDABLE RENTAL HOUSING OF ALL SIZES AND TYPES HAS NEVER BEEN MORE VITAL. IN THE YEAR AHEAD, WE MUST WORK CLOSELY WITH THE PRIVATE SECTOR TO GUARANTEE THAT OUR RENTER POPULATION CAN MEET ITS REQUIREMENTS FOR HOUSING. WE CAN NO LONGER AFFORD, IF WE EVER COULD, TO HEAVILY SUBSIDIZE RENTAL HOUSING PRODUCTION. A BETTER APPROACH IS TO CONCENTRATE OUR LIMITED RESOURCES TO EXTEND THE LIFE OF OUR EXISTING STOCK AND FACILITATE PRODUCTION FOR THE SPECIAL NEEDS OF ELDERLY AND HANDICAPPED PERSONS. WE PLAN EXTENSIVE EFFORTS TO REHABILITATE

LOW-INCOME RENTAL HOUSING AND MODERNIZE PUBLIC HOUSING. FURTHERMORE, AN ESSENTIAL COMPONENT OF OUR EFFORTS TO ASSURE LOW- AND MODERATE-INCOME RENTAL HOUSING INVOLVES THE ADMINISTRATION'S PLAN TO CONTINUE AND UPGRADE THE SECTION 8 EXISTING HOUSING PROGRAM, THE MOST COST-EFFECTIVE FEATURE OF SECTION 8 HOUSING. MODIFIED CERTIFICATES, POPULARLY KNOWN AS "VOUCHERS", ACHIEVE THE DUAL PURPOSE OF ASSISTING LOW-INCOME FAMILIES TO MEET THEIR RENT PAYMENT WHILE ALSO ACTING AS AN INDUCEMENT FOR LANDLORDS TO KEEP THEIR RENTAL HOUSING ADEQUATELY MAINTAINED. THE INCREASED DEMAND FOR RENTAL HOUSING, REPRESENTED BY THE GREATER PURCHASING POWER OF FAMILIES ARMED WITH VOUCHERS, SHOULD HELP PREVENT FURTHER DETERIORATION OF HOUSING STOCK.

MAJOR MANAGEMENT IMPROVEMENTS

LAST YEAR YOU EXPRESSED YOUR STRONG CONCERN THAT THE DEPARTMENT USE ITS MONEY MORE EFFICIENTLY. THIS IS A CONCERN I SHARE AND TODAY I AM PLEASED TO REPORT THAT WE HAVE TAKEN GREAT STRIDES TO IMPROVE THE MANAGEMENT OF THE DEPARTMENT. WE ARE ACCOMPLISHING MUCH IN THE EFFORT TO MINIMIZE FRAUD AND WASTE AND I AM PROUD TO REPORT THAT THE PROFESSIONAL EMPLOYEES AT HUD ARE CONTRIBUTING ADMIRABLY TOWARD THE ACCOMPLISHMENT OF THAT GOAL. I FEEL THIS IS TESTIMONY TO BOTH OUR CONCERTED TRAINING AND EMPLOYEE AWARENESS EFFORTS AND THE DEDICATION OF OUR EMPLOYEES.

A PRIME EXAMPLE OF OUR EFFORTS TO IMPROVE MANAGEMENT IS IN THE AREA OF DEBT COLLECTION. THERE HAS BEEN MUCH EVIDENCE OF MISMANAGEMENT ARISING FROM SLACK DEBT COLLECTION EFFORTS DURING THE PAST SEVERAL YEARS. WE HAVE FOUND THAT APPROXIMATELY 10 PERCENT OF THE DEBTS OWED TO HUD, OR APPROXIMATELY $1.5 BILLION, ARE DELINQUENT. I HAVE SET UP A SPECIAL TASK FORCE TO REMEDY THIS SITUATION, TARGETTING FIVE MAJOR AREAS FOR THIS TASK FORCE: MULTIFAMILY MORTGAGE NOTES, SINGLE FAMILY MORTGAGE NOTES, TITLE I REHABILITATION AND MOBILE HOME LOANS, SECTION 312 REHABILITATION LOANS, AND SECTION 202 DIRECT LOANS. OUR IMPROVED MANAGEMENT IN THE DEBT COLLECTION OPERATION INCLUDES THE ACQUISITION AND ADAPTATION OF SYSTEMS AND SERVICES FROM THE PRIVATE SECTOR TO SUPPORT BOTH THE MANAGEMENT

AND ACCOUNTING SYSTEMS NECESSARY FOR THIS EFFORT TO REMAIN SUCCESSFUL. AND THE RESULT OF THESE EFFORTS, THUS FAR, IS EVIDENCED BY THE INCREASED CASH COLLECTIONS FOR THE TARGETTED PROGRAM AREAS: COLLECTIONS HAVE INCREASED 16.7 PERCENT OVERALL IN THE FIRST QUARTER OF THIS FISCAL YEAR OVER THE AVERAGE QUARTER OF LAST YEAR. IN 1982 AND 1983 WE ESTIMATE THE COLLECTION OF $75 MILLION AND $125 MILLION RESPECTIVELY AS THE RESULT OF OUR INCREASED COLLECTION EFFORTS.

IN OUR CONTINUING EFFORT TO MINIMIZE THE OCCURRENCES OF FRAUD AND WASTE, I HAVE APPOINTED A DEPARTMENTAL COMMITTEE CHAIRED BY HUD'S INSPECTOR GENERAL. RECOGNIZING THAT WE DO HAVE PROBLEMS WITH PROGRAM MANAGEMENT AS WELL AS RESOURCES AND ASSET MANAGEMENT, THIS COMMITTEE ADVISES ME ON THE PROGRESS OF OUR EFFORTS TO REMEDY THESE PROBLEMS. I AM PLEASED TO REPORT THAT THE OFFICE OF THE INSPECTOR GENERAL ISSUED OVER 975 AUDIT REPORTS IN FISCAL YEAR 1981 AND CASH RECOVERIES RESULTING FROM THOSE AUDITS EXCEEDED $16 MILLION. OUR INVESTIGATIONS HAVE RESULTED IN 267 DEBARMENTS AND 284 SUSPENSIONS OF PERSONS OR FIRMS HAVING BUSINESS WITH HUD THIS PAST YEAR. ALSO, THE INSPECTOR GENERAL'S STAFF IS INVOLVED IN LONG-TERM COMPUTER MATCHING INVESTIGATIONS AS AN AID IN DETECTING ABUSES OF FEDERAL BENEFIT PROGRAMS. IN THE LATTER ENDEAVOR, I HAVE DIRECTED HUD STAFF TO WORK WITH OTHER FEDERAL AND STATE AGENCIES ON THE LEGAL AND ADMINISTRATIVE PROBLEMS INVOLVED, INCLUDING THE TECHNOLOGY AND PROGRAMMING ASPECTS AND THE POTENTIAL MATCHING POSSIBILITIES. I HAVE ALSO INITIATED AN EMPLOYEE AWARENESS PROGRAM WITHIN HUD WHICH INCLUDES SUCH ELEMENTS AS THE ISSUANCE OF INFORMATION BULLETINS WHICH ALERT MANAGERS TO SCHEMES USED BY PROGRAM PARTICIPANTS TO MISUSE HUD FUNDS FOR PERSONAL GAINS, AS WELL AS TRAINING COURSES FOR AUDITORS AND INSPECTORS.

ANOTHER MANAGEMENT CHANGE, WHICH I BELIEVE WILL LEAD TO IMPROVED PROGRAM ADMINISTRATION, IS MY DECISION TO PLACE INCREASED RESPONSIBILITY AND AUTHORITY IN THE HANDS OF THE REGIONAL ADMINISTRATORS. LOCATED THROUGHOUT THE COUNTRY, THESE OFFICIALS REPRESENT THE DEPARTMENT AT A POINT WHICH IS MUCH CLOSER TO WHERE OUR HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS ARE ACTUALLY DELIVERED TO THE PEOPLE.

WE ARE ALSO IMPROVING THE IMPLEMENTATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, PARTICULARLY WITH THE SHIFTING OF RESPONSIBILITY FOR THE DIRECT ADMINISTRATION OF THE SMALL CITIES PROGRAM TO THE STATES. THIS IS AN EXCELLENT EXAMPLE OF A MUCH NEEDED AND LONG OVERDUE CHANGE IN THE WAY THE DEPARTMENT CONDUCTS ITS BUSINESS. INSTEAD OF FEDERAL BUREAUCRATS ATTEMPTING TO SCREEN AND SELECT APPLICANTS FOR THE ALLOCATION OF SOME $1 BILLION IN COMMUNITY DEVELOPMENT FUNDS, THIS TASK IS NOW BEING ASSUMED BY THE STATES. WITH UP TO 36 STATES EXPECTED TO PARTICIPATE IN 1982, I AM CONFIDENT THAT THE PROGRAMS THESE STATES WILL CARRY OUT WILL BE RESPONSIVE TO THE LEGISLATIVE OBJECTIVES OF THE CDBG PROGRAM AND RESULT IN THE USE OF FUNDS IN A MANNER CONSISTENT WITH STATE AND LOCAL NEEDS.

ANOTHER IMPORTANT AREA IN WHICH WE HAVE MADE MARKED PROGRESS IN THE DELIVERY OF OUR PROGRAMS RELATES TO REGULATORY IMPROVEMENTS AND DEREGULATION. SINCE APRIL 6, 1981, I INITIATED A DEPARTMENTAL PROCESS INTENDED TO CARRY OUT THE DEREGULATORY OBJECTIVES OF THE ADMINISTRATION--AND WE HAVE MADE SUBSTANTIAL PROGRESS IN THIS REGARD. WE HAVE DESIGNATED EXTENSIVE, EXISTING REGULATIONS FOR DEREGULATORY REVIEW IN ACCORDANCE WITH EXECUTIVE ORDER 12291, AND THE PROGRAM OF THE PRESIDENTIAL TASK FORCE ON REGULATORY RELIEF. REGULATIONS BEING REVIEWED INCLUDE APPROXIMATELY THREE-QUARTERS OF THE TOTAL VOLUME OF COMMUNITY PLANNING AND DEVELOPMENT REGULATIONS AND ONE-THIRD OF OUR HOUSING REGULATIONS. DEREGULATORY ANALYSIS ALSO IS BEING APPLIED TO THE DEVELOPMENT OF ESSENTIAL NEW REGULATIONS. THE VOLUME OF REGULATIONS PUBLISHED BY THE DEPARTMENT HAS BEEN SUBSTANTIALLY REDUCED COMPARED TO THE OUTPOURING OF REGULATIONS IN PREVIOUS YEARS.

UNDER THE LEADERSHIP OF THE GENERAL COUNSEL, AS DEREGULATION OFFICER FOR THE DEPARTMENT, WE ARE CURRENTLY INSTITUTING SIGNIFICANT CHANGES INTENDED TO IMPROVE BOTH THE QUALITY OF HUD REGULATIONS AND THE EFFICIENCY OF THE PROCESS BY WHICH THEY ARE DEVELOPED AND ISSUED. A NEW REGULATIONS UNIT HAS JUST BEEN ESTABLISHED IN THE OFFICE OF GENERAL COUNSEL, THUS CONSOLIDATING IN ONE PLACE THE FULL RESPONSIBILITY FOR THIS PROCESS. REGULATIONS WILL BE PREPARED BY THIS UNIT IN CLOSE AND CONTINUING COOPERATION WITH PROGRAM ASSISTANT SECRETARIES IN A MANNER PATTERNED AFTER THE EXISTING PROCESS BY WHICH THE DEPARTMENT PREPARES

ITS LEGISLATIVE PROGRAM. THIS PROCESS WILL BE MONITORED AND GOVERNED BY A TOP LEVEL OVERSIGHT GROUP UNDER MY CHAIRMANSHIP. WE EXPECT THIS CHANGE TO IMPROVE BOTH THE QUALITY AND TIMELINESS OF HUD REGULATIONS WHILE AT THE SAME TIME CONTINUING TO EASE THE BURDENS OF FEDERAL REGULATIONS THROUGH DEREGULATORY INITIATIVES.

MR. CHAIRMAN, ANOTHER AREA I WOULD LIKE TO DISCUSS IS THE DEPARTMENT'S IMPLEMENTATION OF THE INFORMATION COLLECTION BUDGET (ICB) FOR FISCAL YEAR 1982. AS YOU KNOW, THE ICB IS AN ESTIMATE OF THE TOTAL NUMBER OF HOURS REQUIRED TO COMPLY WITH AGENCY REQUESTS FOR INFORMATION FROM THE PUBLIC. THE BUDGET ITEMIZES EACH FORM USED, DESCRIBES ITS PURPOSE, AND IDENTIFIES THOSE INDIVIDUALS OR ORGANIZATIONS AFFECTED BY IT. THE OFFICE OF MANAGEMENT AND BUDGET REVIEWS AN AGENCY'S REQUEST AND PASSES BACK A NUMBER OF "BURDEN HOURS" THAT THE AGENCY MUST OPERATE UNDER THAT FISCAL YEAR.

THE DEPARTMENT'S 1982 APPROVED ICB LEVEL IS 10.5 MILLION HOURS, WITH AN ADDITIONAL MILLION HOURS ASSOCIATED WITH DAVIS-BACON REQUIREMENTS. THIS REPRESENTS A REDUCTION OF 29 PERCENT FROM OUR 1981 ADJUSTED BASE. OUR BURDEN HOURS ASSOCIATED WITH GRANT PROGRAMS WERE REDUCED BY 35 PERCENT. MR. CHAIRMAN, I AM PROUD TO REPORT THAT BECAUSE OF OUR EFFORTS IN THESE AREAS, HUD WAS THE ONLY CABINET LEVEL AGENCY NOT REQUIRED TO HAVE A HEARING WITH OMB ON THIS SUBJECT IN 1982.

THE DEPARTMENT IS CONTINUING TO PURSUE WAYS TO OBTAIN ADDITIONAL BURDEN REDUCTIONS FOR 1983. WE HAVE RECENTLY SURVEYED OUR FIELD OPERATIONS AND HAVE IDENTIFIED FURTHER TARGETS OF OPPORTUNITY. WE ANTICIPATE THIS INITIATIVE WILL SUBSEQUENTLY ELIMINATE SUBSTANTIAL NUMBERS OF REPORTING REQUIREMENTS.

HIGHLIGHTS OF 1983 BUDGET REQUEST

BECAUSE THE BUDGET DOES NOT PROPOSE ANY NEW BUDGET AUTHORITY FOR THE SECTION 8 AND PUBLIC HOUSING PROGRAMS, WE ARE REQUESTING A NET OF $685 MILLION IN TOTAL BUDGET AUTHORITY FOR THE DEPARTMENT IN 1983.

This consists of $5.9 billion of new authority requested, partially offset by $5.2 billion of proposed rescissions.

For 1983, the major budget authority requests include $1.1 billion for Public Housing Operating Subsidies, $3.45 billion for Community Development Block Grants and $440 million for Urban Development Action Grants. The requests for the block grant and action grant programs are at the same funding levels as in 1982.

The Budget projects 1983 outlays at $13.1 billion, a decrease of $1.5 billion from 1982. The major outlay reductions from 1982 include Community Development Block Grants, the Federal Housing Administration Fund, and Public Housing Operating Subsidies. The Section 202 program, Housing for the Elderly or Handicapped, also shows a significant decrease of $425 million, resulting from the proposal to sell Section 202 mortgages. The decrease in the FHA Fund ($934 million) results primarily from the proposal to collect insurance premiums at mortgage settlement. The most significant increase in 1983 outlays over 1982 is an estimated $626 million for Housing Payments as more subsidized housing units from past commitments come under payment.

Fiscal year 1983 employment at HUD will decline to an estimated 14,000 full-time permanent employees from 14,300 estimated at the end of 1982 and 15,122 actual employees at the end of 1981. The HUD organization most affected by the staffing reductions is the Office of Housing, which will have 479 fewer employees in 1982 than in 1981 and 78 fewer employees in 1983 than in 1982. These reductions are due to the lower program levels in 1982 and 1983. Community Planning and Development employment is also projected to be reduced from the 1981 Actual Level, with 166 and 93 fewer employees in each of the succeeding fiscal years 1982 and 1983. If the 1982 and 1983 rescissions are not enacted, there will be a need to reassess the proposed staffing reductions.

ALL NEW COMMITMENTS FOR SECTION 8 SUBSIDIZED HOUSING UNITS IN 1983 WILL BE MADE THROUGH THE USE OF AUTHORITY RECAPTURED FROM PRIOR YEAR COMMITMENTS. MOREOVER, THE 121,615 UNITS TO BE APPROVED IN 1983 PREDOMINATELY WILL BE EXISTING UNITS WITH THE ONLY NEW CONSTRUCTION APPROVALS BEING 10,000 UNITS UNDER THE SECTION 202 PROGRAM. THESE NEW CONSTRUCTION UNITS ALSO WILL RECEIVE SECTION 8 SUPPORT, CONSISTENT WITH EXISTING POLICIES.

WHILE WE DO NOT PLAN COMMITMENTS FOR ADDITIONAL SECTION 8 OR PUBLIC HOUSING NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION IN 1983, THERE IS STILL CONSIDERABLE CONSTRUCTION ACTIVITY IN THE PIPELINE FROM PAST COMMITMENTS. FOR THE PERIOD 1982 - 1983, NEARLY 553,000 UNITS ARE PROJECTED TO BE COMPLETED UNDER THE SECTION 8, PUBLIC HOUSING AND SECTION 235 PROGRAMS.

A MAJOR HOUSING PROGRAM INITIATIVE IN THE 1983 BUDGET IS THE SECTION 8 MODIFIED CERTIFICATE PROGRAM WHICH WILL PROVIDE ASSISTANCE TO AN ESTIMATED 106,615 UNITS. THE AVERAGE ANNUAL COST FOR THESE UNITS WILL BE $2,000 PER UNIT FOR A PERIOD OF FIVE YEARS, WITH THE 1983 PROGRAM LEVEL PAID FOR THROUGH THE USE OF $1.1 BILLION OF RECAPTURED AUTHORITY.

THE DEPARTMENT IS ALSO REQUESTING $1.1 BILLION FOR PUBLIC HOUSING OPERATING SUBSIDIES. THIS REQUEST IS BASED ON ADOPTION OF SEVERAL IMPORTANT MEASURES WHICH SHOULD MEAN SUBSTANTIAL FUTURE BUDGETARY SAVINGS. ESSENTIALLY, THESE MEASURES ARE PREMISED ON THE BELIEF THAT TENANTS SHOULD ASSUME A GREATER SHARE OF THEIR MONTHLY RENT REQUIREMENT. IN ADDITION, WE ANTICIPATE LESS ENERGY CONSUMPTION, WHICH IS PARTIALLY ATTRIBUTABLE TO THE POSITIVE IMPACT OF MODERNIZING PUBLIC HOUSING PROJECTS.

BECAUSE IT HAS A DIRECT IMPACT ON THE OPERATION OF PUBLIC HOUSING PROJECTS, MODERNIZATION OF THESE PROJECTS REMAINS A HIGH PRIORITY OF THE DEPARTMENT. IN 1983, WE PROPOSE FUNDING OF OVER $980 MILLION OF CAPITAL IMPROVEMENTS, THE SAME LEVEL AS IN 1982. WE INTEND, ALSO, TO GIVE PUBLIC

HOUSING AGENCIES THE OPPORTUNITY TO CANCEL THEIR OUTSTANDING RESERVATIONS FOR NEW CONSTRUCTION AND TO USE A PORTION OF THE RECAPTURED BUDGET AUTHORITY FOR MODERNIZATION OF EXISTING PROJECTS.

IN THE AREA OF COMMUNITY DEVELOPMENT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS, THE DEPARTMENT IS REQUESTING $3,456 MILLION UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND $440 MILLION UNDER THE URBAN DEVELOPMENT ACTION GRANT PROGRAM. THESE FUNDING LEVELS ARE THE SAME AS 1982 AND EMPHASIZE THE ADMINISTRATION'S CONTINUING COMMITMENT TO THE COMMUNITY AND ECONOMIC DEVELOPMENT NEEDS OF THE NATION'S CITIES AND TOWNS.

THE 1983 BUDGET ALSO CONTAINS A NUMBER OF NEW COMMUNITY DEVELOPMENT INITIATIVES. ONE IS THE PROPOSED RENTAL REHABILITATION GRANTS PROGRAM. UNDER THIS PROPOSAL, WHICH IS TIED TO THE SECTION 8 MODIFIED CERTIFICATE PROGRAM, GRANT ASSISTANCE WOULD BE PROVIDED TO STATES AND CITIES TO FINANCE PART OF THE COST OF REHABILITATING 30,000 RENTAL UNITS. THE NEW PROGRAM IS INTENDED TO REPLACE THE SECTION 312 REHABILITATION LOAN AND SECTION 8 MODERATE REHABILITATION PROGRAMS. UPON ENACTMENT OF THE AUTHORIZING LEGISLATION, WE WILL SUBMIT A FORMAL BUDGET REQUEST OF $150 MILLION FOR THIS NEW PROGRAM.

ANOTHER COMMUNITY DEVELOPMENT INITIATIVE--WHICH ALSO COMPLEMENTS THE DEPARTMENT'S HOUSING EFFORTS--IS CONTAINED IN THE URBAN HOMESTEADING PROGRAM. FOR 1983, THE BUDGET REQUESTS A $12 MILLION APPROPRIATION, BUT WITH A NEW APPROACH. OF THE AMOUNT REQUESTED, $9 MILLION WOULD BE AVAILABLE TO CONTINUE THE SINGLE-FAMILY HOMESTEADING PROGRAM AND $3 MILLION WOULD BE USED TO DEMONSTRATE THE FEASIBILITY OF A MULTIFAMILY HOMESTEADING PROGRAM.

A MOST SIGNIFICANT AND FAR-REACHING NEW INITIATIVE IS THE ADMINISTRATION'S PROPOSED ENTERPRISE ZONE TAX ACT OF 1982. THIS LEGISLATION IS INTENDED TO CREATE A FAVORABLE CLIMATE TO ENABLE PRIVATE ENTERPRISE TO REVIVE ECONOMICALLY DEPRESSED AREAS THROUGH TAX REDUCTIONS AND REGULATORY RELIEF AT THE FEDERAL, STATE AND LOCAL LEVELS. THIS

APPROACH TO REDEVELOPMENT IS UNIQUE IN RECENT GOVERNMENT HISTORY, BECAUSE IT DEPENDS ON THE PRIVATE SECTOR TO CREATE JOBS. THIS WILL BE THE FOUNDATION FOR LONG-TERM ECONOMIC REVITALIZATION, RATHER THAN THE CREATION OF ELABORATE GOVERNMENT SPENDING PROGRAMS WHICH HISTORICALLY HAVE FAILED TO DO THE JOB. BECAUSE ONLY MODEST ADMINISTRATIVE COSTS AT HUD ARE REQUIRED TO IMPLEMENT THIS PROGRAM, WE ARE NOT REQUESTING ANY APPROPRIATION FOR IT.

FINALLY, I WOULD LIKE TO HIGHLIGHT THE BUDGET REQUESTS OF $20 MILLION TO CONTINUE OUR RESEARCH EFFORTS AND $5.7 MILLION FOR THE FAIR HOUSING ASSISTANCE PROGRAM. THE LATTER REQUEST WILL ENABLE THE DEPARTMENT TO REIMBURSE STATE AND LOCAL AGENCIES FOR HANDLING DISCRIMINATION COMPLAINTS AND TO CONTINUE SUPPORT TO COMMUNITY HOUSING RESOURCE BOARDS.

HOUSING PROGRAMS

AT THIS POINT, MR. CHAIRMAN, I WOULD LIKE TO PRESENT MORE DETAIL ON THE 1983 PROPOSALS FOR THE SUBSIDIZED HOUSING PROGRAMS, BUT FIRST LET ME MENTION BRIEFLY PROPOSALS WE HAVE JUST MADE TO STIMULATE THE HOUSING INDUSTRY.

CABINET WORKING GROUP

AS YOU ARE AWARE, I HAVE BEEN CHAIRING A CABINET LEVEL WORKING GROUP ON HOUSING POLICY. OUR RECOMMENDATIONS WERE PRESENTED TO THE PRESIDENT ON MARCH 31, 1982. ALL OF THE RECOMMENDATIONS MET WITH HIS APPROVAL AND THE DEPARTMENT HAS ALREADY BEGUN IMPLEMENTING THEM. THE STEPS ARE DESIGNED TO PROVIDE A QUICK, SHORT-TERM STIMULUS TO THE HOUSING INDUSTRY. ONE OF THE CHANGES INVOLVES INCREASING THE FINANCING ADJUSTMENT FACTOR (FAF), WHICH WILL AID ABOUT 70,000 ASSISTED HOUSING UNITS NOW LOCKED IN THE PROCESSING PIPELINE BECAUSE OF FINANCING PROBLEMS.

OTHER MEASURES ARE AIMED AT BROADENING THE BASE OF THE HOUSING FINANCE SYSTEM, EXPANDING THE NUMBER OF HOMEBUYERS WHO CAN QUALIFY FOR FHA-INSURED MORTGAGES, AND EASING THE REGULATORY BURDEN ON HOME BUILDERS. SPECIFIC RECOMMENDATIONS INCLUDE LIBERALIZING REGULATIONS ASSOCIATED WITH MORTGAGE REVENUE BONDS AND PRIVATE PENSION FUNDS; NEW GUIDELINES FOR DETERMINING ADEQUACY OF INCOME WITH RESPECT TO FHA-INSURED MORTGAGES; ALLOWING BUILDER BUYDOWNS ON GRADUATED PAYMENT MORTGAGES; INSTITUTING FEDERAL MORTGAGE INSURANCE FOR ALTERNATIVE FINANCING INSTRUMENTS, AND OTHER MEASURES AIMED AT REDUCING FEDERAL "RED TAPE" WHICH HINDERS BUILDERS AND LEADS TO HIGHER CONSUMER COSTS.

I MUST EMPHASIZE THE FACT THAT THESE ARE SHORT-TERM REMEDIES. WE MUST LOOK TO THE SUCCESS OF THE PRESIDENT'S PROGRAM FOR ECONOMIC RECOVERY FOR LONG-TERM CURES FOR THE PROBLEMS FACING THE HOUSING FINANCE AND CONSTRUCTION INDUSTRIES.

ASSISTED HOUSING PROGRAMS

LAST YEAR, I STATED BEFORE THIS COMMITTEE THAT I HOPED TO DEVELOP AN IMPROVED AND MORE EFFICIENT SUBSIDIZED HOUSING DELIVERY MECHANISM IN TIME FOR THE 1983 BUDGET PRESENTATION. I AM PLEASED TO REPORT TO YOU TODAY THAT SUCH A MECHANISM IS INCLUDED IN THE BUDGET WHICH IS BEFORE YOU. THE SECTION 8 MODIFIED CERTIFICATE PROGRAM, WHICH WE ARE PROPOSING, FULFILLS NOT ONLY SUBSIDIZED HOUSING NEEDS NATIONWIDE, BUT DEPARTMENTAL BUDGETARY REQUIREMENTS IN FURTHERANCE OF ECONOMIC STABILIZATION.

THE PROPOSED PROGRAM ALLOWS THE TENANT GREATER FREEDOM TO CHOOSE A HOUSING UNIT THAN THE CURRENT SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM, YET MAINTAINS A MORE REALISTIC SUBSIDY REQUIREMENT. THE PROPOSED PROGRAM CONTINUES THE DEPARTMENT'S EMPHASIS ON EXISTING HOUSING AS A MORE COST-EFFECTIVE MEANS OF PROVIDING HOUSING ASSISTANCE THAN NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION OF ASSISTED UNITS.

IN ADDITION TO THIS NEW PROGRAM DIRECTION, WE ARE PROPOSING A 1982 PROGRAM OF 219,917 UNITS FOR SECTION 8 AND PUBLIC HOUSING. THE 1982 PROGRAM LEVEL REFLECTS A PROPOSED RESCISSION OF BUDGET AUTHORITY ON WHICH I HAVE PREVIOUSLY TESTIFIED. FOR THE SECTION 8 PROGRAM, RESERVATIONS FOR NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION DEVELOPMENT ACTIVITIES IN 1982 ARE PROPOSED TO BE LIMITED PRIMARILY TO SECTION 202 PROJECTS. IN ADDITION, THOSE UNITS WHICH WERE APPROVED PRIOR TO THE DECISION TO CURTAIL FURTHER PUBLIC HOUSING DEVELOPMENT ARE REFLECTED IN THE 1982 ESTIMATES.

A MAJOR PORTION OF THE SECTION 8 EXISTING HOUSING UNITS TO BE RESERVED IN 1982 IS PROPOSED TO BE UTILIZED IN CONJUNCTION WITH CONVERSIONS FROM THE RENT SUPPLEMENT/RENTAL ASSISTANCE PAYMENTS PROGRAMS. ONCE CONVERSIONS ARE COMPLETED, SUBSTANTIAL FUTURE SAVINGS IN PROGRAM AMENDMENTS WILL BE REALIZED. ALTHOUGH THE AUTHORITY REQUIRED FOR CONVERSIONS WILL BE RESERVED IN 1982, IT IS EXPECTED THAT THE ACTUAL CONVERSION OF ALL 173,000 UNITS WILL TAKE PLACE OVER A THREE YEAR PERIOD.

FOR 1983, THE BUDGET FOR ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING PROPOSES RESERVATIONS OF 121,615 SECTION 8 UNITS AND USE OF BUDGET AUTHORITY AMOUNTING TO $6,128 MILLION. THIS REPRESENTS A DECREASE OF $10,731.5 MILLION IN BUDGET AUTHORITY UTILIZATION FROM 1982. BECAUSE OF AN ACCELERATED PROGRAM TO DEOBLIGATE INFEASIBLE PROJECTS, IT IS ESTIMATED THAT $9,919.1 MILLION OF RECAPTURED BUDGET AUTHORITY WILL BE AVAILABLE TO SUPPORT THE 1983 ASSISTED HOUSING PROGRAM. THEREFORE, WE ARE NOT REQUESTING ANY NEW AUTHORITY AND WE ESTIMATE THAT YOU WILL BE ABLE TO RESCIND $2,415.5 MILLION OF PREVIOUSLY ENACTED BUDGET AUTHORITY.

FOR 1983, THE PROPOSED SECTION 8 MODIFIED CERTIFICATE PROGRAM WILL REQUIRE $1,066.2 MILLION OF BUDGET AUTHORITY TO SUPPORT THE RESERVATION OF 106,615 UNITS. OF THESE UNITS, AN ESTIMATED 30,000 ARE DESIGNATED TO BE RESERVED IN CONJUNCTION WITH THE PROPOSED RENTAL REHABILITATION GRANTS PROGRAM WHICH I WILL DISCUSS IN GREATER DETAIL WITH THE COMMUNITY DEVELOPMENT PROGRAMS.

WITH OUR EMPHASIS ON EXISTING HOUSING AND THE SECTION 8 MODIFIED CERTIFICATE PROGRAM IN 1983, WE ARE PROPOSING A CORRESPONDING REDUCTION OF SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION DEVELOPMENT ACTIVITIES, LIMITING SUCH DEVELOPMENT SOLELY TO SECTION 202, HOUSING FOR THE ELDERLY OR HANDICAPPED PROJECTS. NO PUBLIC HOUSING OR INDIAN HOUSING DEVELOPMENT ACTIVITIES ARE BEING PROPOSED FOR 1983.

THESE PROPOSALS REFLECT NOT ONLY A CONCERN FOR, AND COMMITMENT TO, THE PROVISION OF ASSISTED HOUSING TO THOSE FAMILIES IN NEED, BUT ALSO THE ACHIEVEMENT OF A WORKABLE PROGRAM GIVEN CURRENT RESOURCE LIMITATIONS.

PUBLIC HOUSING MODERNIZATION

THE 1983 BUDGET FOR ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING REFLECTS THE USE OF $1.8 BILLION OF BUDGET AUTHORITY IN BOTH 1982 AND 1983 FOR PUBLIC HOUSING MODERNIZATION. MODERNIZATION ACTIVITIES IN 1982 WILL BE CARRIED OUT UTILIZING THE $300 MILLION OF BUDGET AUTHORITY DEFERRED IN 1981 AND $1,500 MILLION OF RECAPTURED AUTHORITY. THE 1983 PROGRAM WILL BE IMPLEMENTED USING BUDGET AUTHORITY DERIVED ENTIRELY FROM RECAPTURES. THE MODERNIZATION OF PUBLIC HOUSING UNDER THE "COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM" WAS IMPLEMENTED IN FISCAL YEAR 1981. UNDER THIS PROGRAM, A PUBLIC HOUSING AGENCY (PHA) APPLYING FOR MODERNIZATION FUNDING PREPARES AND SUBMITS A COMPREHENSIVE ASSESSMENT OF THE PHYSICAL AND MANAGEMENT IMPROVEMENTS REQUIRED, IDENTIFIES NORMAL REPLACEMENT OF EQUIPMENT AND STRUCTURAL ELEMENTS, AND SUBMITS A PLAN FOR MAKING NEEDED IMPROVEMENTS DURING THE NEXT FIVE YEARS.

PUBLIC HOUSING FINANCING

TO SUPPORT THE SALE OF PUBLIC HOUSING PERMANENT FINANCING INSTRUMENTS TO THE FEDERAL FINANCING BANK (FFB), THE 1983 BUDGET PROPOSES THE TRANSFER OF $1.4 BILLION OF BUDGET AUTHORITY FROM THE ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING ACCOUNT TO THE LOW RENT PUBLIC HOUSING LOAN FUND. THE BUDGET ALSO REFLECTS A PROPOSED

SUPPLEMENTAL APPROPRIATION REQUEST TO TRANSFER $1.4 BILLION OF UNOBLIGATED BUDGET AUTHORITY IN 1982 FROM THE ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING ACCOUNT TO THE LOW RENT PUBLIC HOUSING LOAN FUND TO SUPPORT THE SALE OF FINANCING INSTRUMENTS TO THE FFB.

PUBLIC HOUSING OPERATING SUBSIDIES

FOR PAYMENTS FOR OPERATION OF LOW-INCOME HOUSING PROJECTS (PUBLIC HOUSING OPERATING SUBSIDIES), THE 1983 BUDGET PROPOSES AN APPROPRIATION OF $1,075 MILLION. THE AMOUNT OF OPERATING SUBSIDIES WHICH ARE MADE AVAILABLE TO PHAS TO ASSIST IN FINANCING THE OPERATION OF PHA-OWNED PUBLIC HOUSING DWELLINGS IS DETERMINED PRIMARILY BY USING THE PERFORMANCE FUNDING SYSTEM (PFS) FORMULA. MOREOVER, THE 1983 PROPOSED APPROPRIATION REFLECTS THE IMPACT OF INCREASING THE MAXIMUM ALLOWABLE RENT CONTRIBUTION TO 27 PERCENT OF INCOME FOR EXISTING TENANTS AND TO 30 PERCENT FOR NEW TENANTS, OF INCREASED SUPPORT BY STATE AND LOCAL GOVERNMENTS AND OF PROJECTED SAVINGS IN ENERGY CONSUMPTION.

HOUSING FOR THE ELDERLY OR HANDICAPPED

THE BUDGET PROPOSES LOAN RESERVATIONS OF $453 MILLION FOR THE SECTION 202 PROGRAM IN 1983, INCLUDING NOT LESS THAN $40 MILLION TO BE USED TO PROVIDE HOUSING SPECIFICALLY FOR THE NONELDERLY HANDICAPPED. THIS LOAN LEVEL IS EXPECTED TO SUPPORT 10,000 UNITS AND INCLUDES 945 UNITS AS A MINIMUM FOR THE NONELDERLY HANDICAPPED.

NONPROFIT SPONSOR ASSISTANCE

NO APPROPRIATION IS BEING REQUESTED FOR THE NONPROFIT SPONSOR ASSISTANCE PROGRAM SINCE LOAN AMOUNTS CAN BE FUNDED FROM REPAYMENTS OF PRIOR YEAR LOANS. THESE FUNDS WILL ENABLE THE DEPARTMENT TO CONTINUE TO CARRY OUT A LIMITED PROGRAM TO SUPPORT SPONSORS OF SECTION 202 PROJECTS. THE FEDERAL CREDIT CONTROL LIMITATION PROPOSED FOR 1983 WOULD LIMIT LOANS TO A GROSS TOTAL OF $1.8 MILLION.

RENT SUPPLEMENT PROGRAM

THE 1983 RENT SUPPLEMENT PROGRAM INCLUDES THE ANTICIPATED RECAPTURE OF AN ESTIMATED $116.2 MILLION OF CONTRACT AUTHORITY AND $2.8 BILLION OF BUDGET AUTHORITY AS A RESULT OF THE EXPECTED CONVERSION OF UP TO 60,000 RENT SUPPLEMENT UNITS TO SECTION 8 ASSISTANCE.

THE CONVERSION OF RENT SUPPLEMENT ASSISTED UNITS TO SECTION 8 ASSISTANCE WILL PROVIDE A LONG-TERM SOLUTION TO THE EXISTING PROBLEM OF INADEQUATE FUNDING TO AMEND CONTRACTS FOR PROJECTS WITH RENT SUPPLEMENT UNITS. OF THE TOTAL TO BE RECAPTURED, $105.2 MILLION OF CONTRACT AUTHORITY AND $2.8 BILLION OF BUDGET AUTHORITY ARE BEING PROPOSED FOR RESCISSION. THE REMAINING $11 MILLION OF AUTHORITY WILL BE UTILIZED FOR ONE YEAR TO PROVIDE NECESSARY RENT INCREASES FOR THE RENT SUPPLEMENT UNITS REMAINING UNDER CONTRACT. THESE WILL BE CONVERTED TO SECTION 8 ASSISTANCE IN 1984.

HOUSING PAYMENTS

FOR 1983, THE BUDGET PROPOSES AN APPROPRIATION OF $9.5 BILLION FOR THE HOUSING PAYMENTS ACCOUNT TO PROVIDE PAYMENTS FOR APPROXIMATELY 3.7 MILLION UNITS. THIS AMOUNT, WHICH IS NOT COUNTED AS BUDGET AUTHORITY, REPRESENTS AN APPROPRIATION TO LIQUIDATE THE LEGAL PAYMENT COMMITMENTS FOR UNITS UNDER CONTRACT. THE APPROPRIATION COVERS LIQUIDATION PAYMENTS FOR SUBSIDIZED HOUSING PROGRAMS AND INCLUDES SUBSIDY PAYMENTS FOR SECTION 8, PUBLIC HOUSING, SECTION 235, SECTION 236, RENT SUPPLEMENT AND COLLEGE HOUSING DEBT SERVICE GRANTS.

MORTGAGE AND LOAN INSURANCE

THE 1983 BUDGET INCLUDES A $35 BILLION LIMITATION ON GROSS COMMITMENTS FOR MORTGAGE AND LOAN INSURANCE. IN ADDITION, LEGISLATION WILL BE PROPOSED TO BRING EXISTING INSURANCE AUTHORITIES IN LINE WITH CHANGING MORTGAGE FINANCING CONDITIONS. SPECIFICALLY, THE DEPARTMENT IS REQUESTING AUTHORITY TO PROVIDE INSURANCE FOR NEW FINANCING MECHANISMS INCLUDING ADJUSTABLE RATE

MORTGAGES (ARMS) AND SHARED APPRECIATION MORTGAGES (SAMS). THE DEPARTMENT ALSO PROPOSES TO ELIMINATE THE SECRETARY'S AUTHORITY TO SET INTEREST RATE CEILINGS FOR INSURED LOANS. INTEREST RATES, UNDER THIS PROPOSAL, WILL BE DETERMINED THROUGH MORTGAGEE AND LOAN APPLICANT NEGOTIATIONS, THUS ELIMINATING THE POINT SPREAD BETWEEN INSURED AND CONVENTIONAL LOANS.

WE ALSO ARE PROPOSING A DIRECT LOAN LIMITATION OF $45 MILLION UNDER THE TEMPORARY MORTGAGE ASSISTANCE PAYMENTS (TMAP) PROGRAM FOR 1983 FOR PAYMENTS ON BEHALF OF HOMEOWNERS WHO HAVE SUFFERED TEMPORARY LOSS OF INCOME DUE TO CIRCUMSTANCES BEYOND THEIR CONTROL. WE EXPECT THIS PROGRAM TO COMMENCE THIS SUMMER.

ALSO FOR 1983, WE ARE REQUESTING $240 MILLION TO REIMBURSE THE FHA FUND FOR ACTUAL LOSSES EXPERIENCED IN 1981. THESE FUNDS WILL BE USED TO PAY MORTGAGE AND LOAN INSURANCE CLAIMS AND OTHER OPERATING EXPENSES IN 1983 AND TO REPAY PART OF THE OUTSTANDING TREASURY BORROWINGS. THIS WILL HELP ENSURE THE FINANCIAL SOUNDNESS OF THE FHA FUND. THESE APPROPRIATIONS, OVER THE YEARS, HAVE ALLOWED THE DEPARTMENT TO HOLD THE LINE ON ADDITIONAL TREASURY BORROWINGS, THEREBY REDUCING THE STEEP RISE IN INTEREST COSTS TO THE FHA FUND.

TROUBLED PROJECTS-FLEXIBLE SUBSIDY

FUNDING FOR THE TROUBLED PROJECTS PROGRAM WILL BE PROVIDED IN 1983 BY USING UNOBLIGATED BALANCES ESTIMATED TO BE CARRIED OVER FROM 1982 AND TRANSFERS FROM THE RENTAL HOUSING ASSISTANCE FUND. NO NEW APPROPRIATION IS REQUESTED. THESE FUNDS WILL BE USED TO ADDRESS THE COMPREHENSIVE NEEDS OF AN ESTIMATED 98 FINANCIALLY TROUBLED PROJECTS IN 1983.

MANUFACTURED HOME INSPECTION AND MONITORING PROGRAM

SINCE ITS INCEPTION, THE MANUFACTURED HOME INDUSTRY HAS MADE PROGRESS IN IMPROVING THE SAFETY, DURABILITY AND QUALITY OF MANUFACTURED HOMES. MOREOVER, THE MANUFACTURED HOME INDUSTRY NOW PRODUCES A SIGNIFICANT

PORTION OF THE NATION'S HOUSING. FOR 1983, A PERMANENT, INDEFINITE APPROPRIATION OF $5.7 MILLION IS ESTIMATED TO BE AVAILABLE TO CONDUCT INSPECTION ACTIVITIES. THESE FUNDS REFLECT THE FEES ANTICIPATED TO BE COLLECTED FROM MANUFACTURERS FOR THE PRODUCTION OF AN ESTIMATED 300,000 MANUFACTURED HOMES AND WILL BE USED TO COVER THE COSTS OF MONITORING THE MANUFACTURER'S QUALITY CONTROL PROCEDURES, TO DEFRAY THE COSTS INCURRED WITHIN STATES FOR INSPECTIONS RELATING TO CONSUMER COMPLAINTS, AND TO PERMIT AN EXPANSION OF MONITORING ACTIVITIES TO IMPROVE THE PERFORMANCE OF INSPECTION AND DESIGN APPROVAL AGENCIES.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

MR. CHAIRMAN, I WOULD NOW LIKE TO DISCUSS THE PROGRAMS OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION.

MORTGAGE-BACKED SECURITIES PROGRAM

THROUGH THE MORTGAGE-BACKED SECURITIES PROGRAM, GNMA HAS PIONEERED THE DEVELOPMENT OF THE SECONDARY MARKET FOR MORTGAGE FINANCING. WE PROPOSE CONTINUATION OF THE MORTGAGE-BACKED SECURITIES PROGRAM AT A LEVEL OF $38.4 BILLION OF COMMITMENTS ISSUED. THIS WE BELIEVE WILL SUPPORT ACTUAL SECURITY ISSUES UP TO A $32.0 BILLION LEVEL. THE LEVEL PROPOSED REFLECTS A MORE REALISTIC ASSESSMENT OF THE AMOUNT OF CREDIT REQUIRED TO MEET PROGRAM DEMAND IN THE CURRENT ECONOMIC ENVIRONMENT. IN ADDITION, WE ARE PUTTING IN PLACE IN FISCAL YEAR 1983 REASONABLE INCREASES IN COMMITMENT FEES WHICH WILL RESTRAIN UNNECESSARY REQUESTS FOR COMMITMENTS.

WE BELIEVE THAT THE REDUCTION PROPOSED IN THE 1983 BUDGET WILL NOT HAVE A MAJOR IMPACT ON THE AMOUNT OF FINANCING AVAILABLE TO CONSUMERS FOR HOUSING. BY PUTTING A REALISTIC AND PRACTICAL LIMIT ON GNMA, WE INTEND TO SEND THE MARKET A SIGNAL THAT THERE IS AMPLE ROOM FOR PRIVATE ALTERNATIVES TO GROW AND PROSPER, SUCH AS THE NEW MORTGAGE-BACKED SECURITIES PROGRAMS OF BOTH THE FEDERAL NATIONAL MORTGAGE ASSOCIATION AND FEDERAL HOME LOAN MORTGAGE CORPORATION. WE WILL CONTINUE TO SUPPORT THE MARKET

BUT WE ARE LOOKING TO THESE AND OTHER SOURCES TO PLAY AN INCREASINGLY IMPORTANT ROLE IN THE FUTURE.

TERMINATION OF TANDEM PROGRAM

WE ARE NOT PROPOSING ANY FURTHER FUNDING FOR THE GNMA TANDEM MORTGAGE PURCHASE PROGRAM. THIS PROGRAM HAS TURNED OUT TO BE MUCH MORE EXPENSIVE THAN ORIGINALLY CONTEMPLATED AND THE EFFECTS OFTEN HAVE NOT BEEN FOCUSED ON THE TRULY NEEDY. WE CAN NO LONGER AFFORD THE LUXURY OF DEVOTING SCARCE RESOURCES TO PUBLIC PROGRAMS WHICH ARE COSTLY YET OFTEN UNTARGETED.

SOLAR ENERGY AND ENERGY CONSERVATION BANK

MR. CHAIRMAN, I NOW WOULD LIKE TO TURN BRIEFLY TO THE ASSISTANCE FOR SOLAR AND CONSERVATION IMPROVEMENTS PROGRAM FOR WHICH $21.8 MILLION IS AVAILABLE IN 1982.

THIS NEW PROGRAM, DESIGNED TO SUBSIDIZE INVESTMENTS IN ENERGY CONSERVATION MEASURES AND SOLAR TECHNOLOGIES, IS PROPOSED FOR TERMINATION. AS OIL PRICES HAVE RISEN, SUCH INVESTMENTS HAVE BECOME MORE COST EFFECTIVE, AND THEY CAN BE EXPECTED TO BECOME YET MORE ATTRACTIVE WITH THE DECONTROL OF GAS AND OIL PRICES. A COMPLEX PROGRAM OF THIS TYPE WOULD REQUIRE ESTABLISHMENT OF A COSTLY ADMINISTRATIVE APPARATUS, INSTEAD OF USING ALREADY AVAILABLE MARKET MECHANISMS. TO THE EXTENT THAT LOCAL GOVERNMENTS DESIRE TO ASSIST CERTAIN GROUPS--SUCH AS LOW-INCOME HOUSEHOLDS--WITH ENERGY CONSERVATION AND SOLAR INSTALLATIONS, COMMUNITY DEVELOPMENT BLOCK GRANTS ARE AVAILABLE.

COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS

COMMUNITY DEVELOPMENT GRANTS

NOW I WOULD LIKE TO DISCUSS OUR 1983 APPROPRIATION REQUEST FOR THE COMMUNITY DEVELOPMENT BLOCK GRANTS PROGRAM. WE ARE REQUESTING $3.45

BILLION FOR THIS PROGRAM IN 1983, THE SAME APPROPRIATION LEVEL AS 1982. MR. CHAIRMAN, AS YOU ARE AWARE, SOME SIGNIFICANT CHANGES WERE MADE IN THE BLOCK GRANT PROGRAM IN FISCAL YEAR 1981. WE HAVE MADE CONSIDERABLE PROGRESS TOWARD IMPLEMENTING THESE CHANGES THIS YEAR AND WE EXPECT PROGRESS TO CONTINUE.

THE RESPONSE OF STATES ACROSS THE COUNTRY TO THE OPPORTUNITY TO DETERMINE HOW TO DISTRIBUTE OVER $1 BILLION IN COMMUNITY DEVELOPMENT FUNDS TO COMMUNITIES UNDER 50,000 POPULATION HAS BEEN NOTEWORTHY. WE ANTICIPATE THAT UP TO 36 STATES WILL EXERCISE THEIR OPTION UNDER THE NEW LEGISLATION TO ADMINISTER THE SMALL CITIES PROGRAM IN FISCAL YEAR 1982, AND ANOTHER 10 TO 12 MAY ASSUME THIS RESPONSIBILITY IN FISCAL YEAR 1983.

STATES HAVE DEVELOPED A WIDE VARIETY OF PROGRAMS: SOME EMPHASIZE HOUSING; SOME FOCUS ON PUBLIC FACILITIES TO DEAL WITH THE SHORTAGE OF ADEQUATE WATER AND SEWER FACILITIES, PARTICULARLY IN SMALL RURAL COMMUNITIES AND COUNTIES; AND MANY ARE PROMOTING ECONOMIC DEVELOPMENT TO CREATE OR RETAIN JOBS FOR RESIDENTS OF SMALL COMMUNITIES.

WE ARE CONFIDENT THESE STATE PROGRAMS WILL REFLECT THE OBJECTIVES OF THE 1981 AMENDMENTS AND WILL RESULT IN THE USE OF COMMUNITY DEVELOPMENT FUNDS IN A MANNER CONSISTENT WITH STATE AND LOCAL NEEDS.

OUR BUDGET REQUEST FOR THE BLOCK GRANT PROGRAM IN 1983 WILL PROVIDE A CONTINUED FUNDING SOURCE OF $2.4 BILLION FOR APPROXIMATELY 740 METROPOLITAN CITIES AND URBAN COUNTIES UNDER THE BLOCK GRANT ENTITLEMENT PROGRAM. THIS REFLECTS THE IMPORTANCE THE ADMINISTRATION PLACES ON MAINTAINING ECONOMICALLY AND SOCIALLY VIABLE COMMUNITIES.

THE ENTITLEMENT PROGRAM ALSO HAS BEEN SIMPLIFIED AND IMPROVED AS A RESULT OF THE 1981 LEGISLATIVE AMENDMENTS. NOW ENTITLEMENT COMMUNITIES CAN CONCENTRATE ON CARRYING OUT COMMUNITY DEVELOPMENT ACTIVITIES MORE EFFECTIVELY BECAUSE THEY HAVE BEEN GRANTED RELIEF FROM MANY OF THE PREVIOUS PAPERWORK BURDENS.

WE ARE RECOMMENDING A $56.5 MILLION FUNDING LEVEL FOR THE SECRETARY'S DISCRETIONARY FUND IN 1983, THE SAME FUNDING LEVEL AS IN 1982. THIS WILL PROVIDE CONTINUED FUNDING FOR INDIAN TRIBES, INSULAR AREAS AND TECHNICAL ASSISTANCE GRANTS.

URBAN DEVELOPMENT ACTION GRANTS

THE FISCAL YEAR 1983 BUDGET PROPOSES TO CONTINUE THE URBAN DEVELOPMENT ACTION GRANTS PROGRAM AT THE 1982 APPROPRIATION LEVEL OF $440 MILLION. LAST YEAR I ANNOUNCED THAT AN EVALUATION OF THE UDAG PROGRAM WOULD BE CARRIED OUT BY OUR OFFICE OF POLICY DEVELOPMENT AND RESEARCH. THE EVALUATION TEAM CONDUCTED AN INTENSIVE EXAMINATION OF 80 ACTION GRANT PROJECTS IN 70 CITIES.

THIS EVALUATION CONCLUDED THAT UDAG IS SUBSTANTIALLY FULFILLING ITS CONGRESSIONAL MANDATE, AND THAT FOR THE MOST PART, UDAG PROJECTS ARE LIVING UP TO EXPECTATIONS REGARDING LEVERAGING OF PRIVATE INVESTMENT AND CREATION OF JOBS. AS A RESULT OF THE STUDY'S RECOMMENDATIONS, SEVERAL CHANGES WERE MADE TO IMPROVE THE PROGRAM'S PERFORMANCE IN PROMOTING ECONOMIC DEVELOPMENT IN DISTRESSED CITIES AND URBAN COUNTIES.

THE 1981 LEGISLATIVE AMENDMENTS ALSO CONTAINED SOME CHANGES IN THE UDAG PROGRAM. CONSISTENT WITH THE AMENDED STATUTE, THE UDAG PLANNING PROCESS HAS BEEN STREAMLINED SUBSTANTIALLY TO REDUCE TIME AND PAPERWORK BURDENS ON APPLICANTS. WE HAVE INCORPORATED THE NEW PROVISION THAT THE UDAG SUBSIDY BE THE LEAST AMOUNT REQUIRED FOR THE PROJECT TO PROCEED, AND WE HAVE STRENGTHENED LANGUAGE TO ENSURE THAT THE UDAG GRANT IS NOT USED AS A SUBSTITUTE FOR OTHER AVAILABLE NON-FEDERAL FUNDS.

URBAN HOMESTEADING

THE DEPARTMENT ALSO IS PROPOSING AN APPROPRIATION OF $12 MILLION FOR THE URBAN HOMESTEADING PROGRAM IN 1983. THE PROGRAM HAS OPERATED FOR THE PAST SEVERAL YEARS ON FUNDS THAT WERE APPROPRIATED IN 1979. HOWEVER, BEGINNING IN 1981, THERE WAS AN INCREASE IN PROGRAM ACTIVITY AND THIS IS EXPECTED TO CONTINUE IN 1982, CONSUMING THE REMAINING AVAILABLE FUNDS.

WE BELIEVE THIS PROGRAM IS AN EFFECTIVE MEANS TO IMPROVE EXISTING HOUSING STOCK AND PROMOTE NEIGHBORHOOD REVITALIZATION. THE CURRENT PROGRAM PROVIDES FOR THE HOMESTEADING OF SINGLE-FAMILY PROPERTIES; HOWEVER, WE ALSO ARE PROPOSING A DEMONSTRATION PROGRAM THAT WOULD INCLUDE HUD-HELD MULTIFAMILY PROPERTIES FOR USE UNDER THE PROGRAM.

UP TO $3 MILLION OF THE $12 MILLION LEVEL IS PROPOSED FOR USE UNDER THIS DEMONSTRATION PROGRAM. THE DEMONSTRATION WILL PERMIT THE TRANSFER OF PROPERTIES WITH FIVE OR MORE UNITS. ALSO, THE RANGE OF ELIGIBLE PARTICIPANTS WOULD BE WIDER UNDER THE DEMONSTRATION, PERMITTING TRANSFER NOT ONLY TO INDIVIDUALS AND FAMILIES, BUT ALSO TO PARTNERSHIPS, CORPORATIONS AND OTHER GENERALLY ACCEPTED FORMS OF OWNERSHIP. IN ADDITION, THE DEMONSTRATION PROPOSAL ALLOWS THE TRANSFER OF OCCUPIED AND PARTIALLY OCCUPIED PROPERTIES TO CITIES. THIS IS HELPFUL IN LIGHT OF THE FACT THAT A MAJORITY OF HUD-HELD MULTIFAMILY PROPERTIES FIT THESE TWO CATEGORIES.

RENTAL REHABILITATION GRANTS

THE DEPARTMENT ALSO IS PROPOSING AN APPROPRIATION OF $150 MILLION, SUBJECT TO THE ENACTMENT OF AUTHORIZING LEGISLATION, FOR A NEW REHABILITATION PROGRAM DESIGNED TO ASSIST IN THE PRESERVATION AND UPGRADING OF THE NATION'S RENTAL HOUSING STOCK. THIS PROGRAM WILL PROVIDE GRANT ASSISTANCE TO LOCALITIES, STATES, AND URBAN COUNTIES TO SUPPORT THE REHABILITATION OF APPROXIMATELY 30,000 UNITS. THE GRANTS WILL BE USED TO SUBSIDIZE THE COST OF REHABILITATING PROPERTIES FOR RENTAL AT COMPETITIVE MARKET RATES. THIS NEW INITIATIVE WILL BE LINKED TO THE NEW SECTION 8 MODIFIED CERTIFICATE PROGRAM.

UNDER OUR PROPOSAL, 30,000 SECTION 8 MODIFIED CERTIFICATES WILL BE MADE AVAILABLE TO STATES AND LOCALITIES CARRYING OUT RENTAL

REHABILITATION PROGRAMS. THESE CERTIFICATES WILL BE PROVIDED TO ELIGIBLE TENANTS RESIDING IN UNITS TO BE REHABILITATED SO THAT RENTERS WILL BE ABLE TO AFFORD THE PRIVATE MARKET RENTAL RATES. TENANTS WILL HAVE THE OPTION OF REMAINING IN THE UNITS AFTER REHABILITATION, OR USING THE ASSISTANCE PROVIDED BY THE CERTIFICATES TO RESIDE IN OTHER DWELLINGS OF THEIR CHOICE.

STATES AND LOCALITIES WILL HAVE BROAD DISCRETION IN PROVIDING RENTAL REHABILITATION FUNDS TO INDIVIDUAL PROPERTY OWNERS. FUNDS MAY BE GIVEN AS GRANTS, DEFERRED PAYMENT LOANS, OR LOW-INTEREST LOANS REPAYABLE TO A PUBLIC AGENCY. ALSO, THERE ARE NO RESTRICTIONS REGARDING THE NUMBER OF UNITS IN ASSISTED BUILDINGS; THEREFORE, BOTH SINGLE-FAMILY AND MULTIFAMILY PROPERTIES MAY BE USED.

THE RENTAL REHABILITATION GRANTS PROGRAM WILL BE LINKED WITH THE SECTION 8 PROGRAM AND WILL PROVIDE AN IMPORTANT BRIDGE BETWEEN HUD AND THE PRIVATE MARKET. THIS APPROACH REPRESENTS A DEPARTURE FROM PREVIOUS POLICY, AND IT WILL RESULT IN A LARGER NUMBER OF PROPERTY OWNERS AND LOW-INCOME TENANTS BEING ASSISTED.

PROGRAMS PROPOSED FOR TERMINATION

IN FISCAL YEAR 1983, WE ARE PROPOSING TO TERMINATE THE SECTION 108 LOAN GUARANTEE PROGRAM. THIS IS PART OF THE ADMINISTRATION'S EFFORTS TO REDUCE PRESSURE ON THE FINANCIAL MARKETS THAT IS PRODUCED BY EXCESSIVE FEDERAL BORROWING.

IN ADDITION, WE ARE PROPOSING TO TERMINATE THE SECTION 312 REHABILITATION LOAN PROGRAM. ACTIVITIES WHICH HAVE BEEN CARRIED OUT UNDER THIS PROGRAM CAN BE UNDERTAKEN MORE EFFICIENTLY UNDER THE DEPARTMENT'S NEW RENTAL REHABILITATION GRANTS PROGRAM. ALSO, THE TERMINATION OF THE SECTION 312 PROGRAM WILL ELIMINATE DUPLICATION WHICH NOW OCCURS WHEN SUCH ACTIVITIES ARE CARRIED OUT UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANTS PROGRAM.

NEW COMMUNITY DEVELOPMENT CORPORATION

IT IS THE DESIRE OF THIS ADMINISTRATION THAT THE TITLE VII NEW COMMUNITIES PROGRAM BE LIQUIDATED AS EXPEDITIOUSLY AND ECONOMICALLY AS POSSIBLE.

TO SATISFY THAT OBJECTIVE, NCDC IS PURSUING AN AGGRESSIVE ASSET LIQUIDATION PROGRAM TO SELL OR OTHERWISE DISPOSE OF THE SEVERAL REMAINING NEW COMMUNITY PROPERTIES BY:

-- LIQUIDATING THE HUD-OWNED ASSETS IN THE FAILED COMMUNITIES;

-- NEGOTIATING ACCEPTABLE TERMS WITH THE EXISTING DEVELOPERS OF THE THREE NEW COMMUNITIES NOT MEETING THEIR DEBT SERVICE AND TERMINATING THEIR TITLE VII STATUS, OR, FAILING TO REACH ACCEPTABLE TERMS, BY TAKING POSSESSION OF AND LIQUIDATING THE ASSETS;

-- TERMINATING ALL REMAINING TITLE VII AGREEMENTS ON THOSE THREE PROJECTS WITH CERTIFICATES OF ELIGIBILITY; AND

-- TERMINATING THE TITLE VII STATUS WITH THE REMAINING FINANCIALLY SUCCESSFUL NEW COMMUNITY.

WE ARE WELL ON THE ROAD TO MEETING THIS OBJECTIVE AND FEEL THAT BY THE END OF 1983 THE MAJORITY OF THE DISPOSITION PROCESS WILL BE COMPLETED.

POLICY DEVELOPMENT AND RESEARCH

AN APPROPRIATION OF $20 MILLION IS REQUESTED IN 1983 FOR THE RESEARCH AND TECHNOLOGY ACCOUNT TO CARRY OUT THE DEPARTMENT'S RESEARCH PROGRAM. IT

IS A PRACTICAL, COST-EFFECTIVE PROGRAM GEARED TO PROVIDING TANGIBLE, USEFUL RESULTS.

PARTICULAR AREAS ON WHICH WE WILL FOCUS IN 1983 INCLUDE:

— STRATEGIES FOR INCREASING THE EFFICIENCY AND EFFECTIVENESS OF ASSISTED HOUSING PROGRAMS THROUGH REFORMS OF EXISTING PROGRAMS AND EVALUATION OF ALTERNATIVE PROGRAMS, INCLUDING THE ISSUE OF PRIVATE SECTOR INVOLVEMENT IN THE MANAGEMENT OF PUBLIC HOUSING;

— ANALYSIS OF: (1) THE RELATIONSHIP BETWEEN TAX POLICIES AND HOUSING, (2) ALTERNATIVE HOUSING FINANCE MECHANISMS, SUCH AS ALTERNATIVE MORTGAGE INSTRUMENTS, (3) FINANCIAL INSTITUTION REGULATION AND REFORM, AND (4) ALTERNATIVE TAX AND OTHER FINANCIAL INCENTIVES FOR HOUSING;

— ANALYSES OF NEW OR IMPROVED ALTERNATIVES FOR URBAN ECONOMIC DEVELOPMENT, INCLUDING INITIATION OF THE ADMINISTRATION'S ENTERPRISE ZONE PROGRAM;

— WAYS TO REDUCE THE COMPONENT COST OF HOUSING (COSTS OF DEVELOPMENT, BUILDING, FINANCING, AND OPERATING);

— WAYS TO ACHIEVE MORE AFFORDABLE HOUSING THROUGH LOCAL DEREGULATION;

— DEVELOPMENT AND DISSEMINATION OF INFORMATION ABOUT BETTER METHODS FOR CITY MANAGEMENT AND FOR DELIVERY OF LOCAL GOVERNMENT SERVICES, INCLUDING ALTERNATIVE ARRANGEMENTS FOR DELIVERING PUBLIC SERVICES;

— PUBLIC AND PRIVATE PARTNERSHIPS FOR ECONOMIC DEVELOPMENT STRATEGIES;

— IDENTIFICATION OF SUCCESSFUL NEIGHBORHOOD ACTIVITIES; AND

— ISSUES RELATED TO FAIR AND NONDISCRIMINATORY HOUSING.

FAIR HOUSING AND EQUAL OPPORTUNITY

WE ARE REQUESTING $5.7 MILLION FOR THE FAIR HOUSING ASSISTANCE PROGRAM IN 1983, WHICH IS SLIGHTLY HIGHER THAN 1982. OF THIS TOTAL, $3.7 MILLION WILL BE PROVIDED TO STATE AND LOCAL AGENCIES WHICH ARE RECOGNIZED AS SUBSTANTIALLY EQUIVALENT UNDER TITLE VIII OF THE CIVIL RIGHTS ACT OF 1968. THE FUNDS WILL BE UTILIZED TO ENHANCE AGENCY CAPABILITY TO PROCESS COMPLAINTS AND ALSO WILL PROVIDE TECHNICAL ASSISTANCE AND TRAINING TO AGENCY STAFF. THE REMAINING $2.0 MILLION WILL BE PROVIDED TO COMMUNITY HOUSING RESOURCE BOARDS (CHRBS) WHICH ASSIST THE DEPARTMENT IN DEVELOPING AND IMPLEMENTING VOLUNTARY AFFIRMATIVE MARKETING PROGRAMS. THE CHRB FUNDING, TOGETHER WITH FUNDING FOR THE STATE AND LOCAL AGENCIES, PROVIDES AN EFFECTIVE WAY OF ALLOWING STATES AND LOCAL AGENCIES AND PRIVATE GROUPS TO FORM A PARTNERSHIP WITH HUD IN ENFORCING THE FAIR HOUSING LAW.

IN 1983, OUR EFFORTS PURSUANT TO TITLE VI AND SECTION 109 WILL CONTINUE TO EXPAND. THE QUALITY AND IMPACT OF COMPLIANCE REVIEWS AND COMPLAINT INVESTIGATIONS WILL INCREASE. IMPROVED QUALITY OF FHEO INVESTIGATIONS WILL CONTINUE TO BE ACCOMPLISHED THROUGH BETTER COMPLIANCE REVIEWS AND TARGETING OF THESE REVIEWS BY BETTER UTILIZATION OF INFORMATION AND DATA AVAILABLE FROM AREA OFFICES. THIS WILL BE ACCOMPLISHED WITHOUT ANY INCREASES IN OUR REQUESTED STAFFING LEVEL, WHICH IS 569 PERMANENT POSITIONS, THE SAME LEVEL AS 1982.

REPROGRAMMING

SINCE 1977, THE HOUSE AND SENATE APPROPRIATIONS COMMITTEES HAVE EXPRESSED THEIR DESIRE TO BE INFORMED IN ADVANCE OF SIGNIFICANT REPROGRAMMINGS OF APPROPRIATED FUNDS AND OF CONTEMPLATED REORGANIZATIONS. THE DEPARTMENT HAS COMPLIED WITH THESE COMMITTEE DIRECTIVES. IN THE CONFERENCE REPORT ON THE DEPARTMENT'S 1982 APPROPRIATION ACT, AND IN SEPARATE CORRESPONDENCE FROM CONGRESSMAN BOLAND, THE CONGRESS HAS MADE CLEAR ITS CONTINUING INTEREST IN ASSURING THAT APPROPRIATED FUNDS ARE OBLIGATED IN A MANNER CONSISTENT WITH ITS DECISIONS. I HAVE EXPRESSED TO MY PRINCIPAL STAFF AND TO THE HOUSE AND SENATE APPROPRIATIONS COMMITTEES THE DEPARTMENT'S AGREEMENT WITH THE COMMITTEES' CONCERNS ON THIS MATTER; AND HAVE IMPLEMENTED DEPARTMENTAL INSTRUCTIONS TO ASSURE THAT WE ARE IN COMPLIANCE WITH THE LETTER AND THE SPIRIT OF THE COMMITTEES' WISHES.

DEPARTMENTAL MANAGEMENT

OUR 1983 STAFFING REQUEST IS FOR 14,000 FULL-TIME PERMANENT PERSONNEL, A DECREASE OF 300 FROM THE 1982 ESTIMATE OF 14,300. MOST OF THE REDUCTION IS ACCOUNTED FOR BY LOWER STAFFING IN HOUSING, COMMUNITY PLANNING AND DEVELOPMENT, AND ADMINISTRATIVE SUPPORT FUNCTIONS BASED ON THE LOWER WORKLOAD AND EMPLOYMENT LEVELS PLANNED FOR 1983.

OF COURSE, THESE PERSONNEL NUMBERS ARE BASED ON THE REVISED PROGRAM AND WORKLOAD ESTIMATES CONTAINED IN THE BUDGET AND ASSUME APPROVAL OF THE RESCISSIONS PROPOSED BY THE PRESIDENT. TO THE EXTENT THAT RESCISSIONS ARE NOT APPROVED, RELATED INCREASES IN STAFFING MIGHT BE REQUIRED.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

CURRENT STATUS OF RESCISSION PROPOSAL

Senator GARN. Thank you, Mr. Secretary. We may have a reprieve after all of the warning I gave you. It appears that we might even be able to finish this morning unless, as I told Wally, my wife calls and says she needs to go to the hospital. My wife is expecting a baby again. But I want to assure you that this is No. 7 and the last. Seven is enough. I don't think I can provide housing for any more. [Laughter.]

On the 23d of last month, the 45-day time limit on your assisted housing rescission expired. Notwithstanding this, it is likely that the Senate will recommend rescinding a substantial portion of the $5.9 billion in the amended rescission request. Before taking final action on this item, it is important to understand what commitments have been made by the Department since April 23.

Would you describe the current status of the funds proposed for rescission?

Secretary PIERCE. Yes. We have made commitments since that date, approximately 2,100 units of commitments.

Senator GARN. Would you please keep us informed on any additional commitments that you may make?

Secretary PIERCE. We certainly will.

Senator GARN. We will need to adjust the conference agreement accordingly.

HOUSING COMMISSION REPORT

On April 30, the President's Commission on Housing distributed an advanced edition of their report.

Could you briefly describe the basic conclusions of that report and how HUD intends to implement them?

Secretary PIERCE. Which report was that?

Senator GARN. The President's Commission on Housing. Just a brief summary of the major recommendations?

Secretary PIERCE. Actually, Mr. Chairman, we are in a process of studying that report. I have been away a good deal since that report was issued and I cannot tell you at this moment how many of their recommendations we actually will try to implement. We are in the process of studying that. I can safely say we are not going to implement all of them because some I know we do not want to do. But we will implement, I think, many suggestions that have been made in that report.

Senator GARN. As soon as possible, could you supply that information to the subcommittee because we are getting asked questions constantly on what the administration is going to do as a result of these recommendations.

Secretary PIERCE. We have already implemented some of it. For example, the voucher program which they recommend, we are implementing that. As a matter of fact, that conclusion was not only reached by the President's Commission but also by our Office of Policy Development and Research. They reached the same conclusion that we should go ahead with the voucher program, and we are.

Senator GARN. I understand the problem of reviewing all of the recommendations and making decisions as a result of them. But, as soon as you do make those decisions we would appreciate if you would inform the subcommittee.

Secretary PIERCE. We certainly will.

PENSION FUNDS AS MORTGAGE FUNDING SOURCE

Senator GARN. On December 3, 1981, the President announced that the Department of Labor was taking immediate steps to permit individuals to invest pension plan funds in residential mortgages. At that time, you noted that the assets of pension funds in the past 20 years have grown from $38 billion to over $600 billion and that these funds are the single largest pool of long-term capital. In your opening statement you make reference to the role that private pension funds can play in housing financing.

What effect, if any, has the result of this new policy had on the availability of pension funds for mortgages? When would you expect to see an infusion of funds from this source?

Secretary PIERCE. We have had one meeting; we expect to have two more with members of the industry, and we do expect funds to flow. In fact, we have had some good communication with various people who manage these pension funds and I think we are influencing them to go in the direction of investing money in residential mortgage and mortgage-backed securities.

We do not have any definite numbers at this time as to how much has already been invested by the pension funds. But we will keep on top of it and watch it very carefully, and obviously we are very interested in trying to make this work.

Senator GARN. Do you have any idea as to the time frame? Are you talking about 30 or 60 days that we will see some significant flow of funds?

Secretary PIERCE. I would think it would be more than 60 days before you would see any significant flow. It is a good concept, but people are taking their time and studying it very carefully before they commit large sums of money to it. We think we are on the right road and we think eventually we will get sizeable amounts of money into residential mortgages, but I doubt if there will be any real significant development within the next 60 days.

CRITERIA FOR ENTERPRISE ZONES

Senator GARN. The administration is proposing that up to 25 enterprise zones be established in each of the program's first 3 years. It is estimated that the program will cost the Federal Government approximately $310 million in fiscal year 1984, $624 million in fiscal year 1985, and $930 million in fiscal year 1986 in lost revenues.

What criteria has the Department established for the selection of the first set of enterprise zones?

Secretary PIERCE. As you know, in the legislation itself, there is a criteria to decide which zones qualify for our enterprise zone help and we would build on that. We are in the process of building on these criteria right now, making regulations to clarify exactly what these qualifications must be. We have not completed that as yet, but we certainly believe we will have them ready by the time the act passes the Congress.

SELECTION OF ENTERPRISE ZONE CITIES

Senator GARN. Do you have any idea when the cities will be selected in order for implementation to begin in fiscal year 1984?

Secretary PIERCE. Just as soon as that act is passed, we will act as fast as we possibly can. A lot depends on when the act is passed. I would think within a matter of a few months after the passage of legislation we will have a number of cities selected.

EVALUATION OF ENTERPRISE ZONES

Senator GARN. Do you have any activities underway in the Department to evaluate the effectiveness of the enterprise zones in terms of jobs, rehab, and revenue generated as offsets to the Federal dollars being spent?

Secretary PIERCE. Yes; our Office of Policy Development and Research is in the process of studying that.

Senator GARN. Is it possible for you at this point to describe in any detail how this evaluation will work?

Secretary PIERCE. I have Mr. Savas here from our Department and I am sure he can answer.

Senator GARN. I saw him leaning forward.

Mr. SAVAS. We have developed, in rather substantial detail, plans for evaluating the enterprise zones, short term, medium term, and long term. Six months after the first zones are designated we do expect to have a report showing initial economic activity, showing the background, what is the status at the time of designation, detailed analysis of the initial activity based on a lot of interviews, details about the composition of the area based on census information and city records of various types.

Those are the initial quick-look kinds of information which I think many people want to know, even though it would not be too definitive at that time.

We would expect to have the rather detailed report available by the third year of the program charting the actual accomplishments and activities, job creation, investment, and so forth, occurring from the first wave—the first 25 zones created. And then we have a longer term plan to monitor in substantial detail the nature of economic change, trying to distinguish what is happening in the zones from what is happening in other areas and trying to account for the difference. We have the short-term and long-term focuses for evaluation rather well planned already.

Senator GARN. Thank you.

REGULATORY CHANGES—PUBLIC HOUSING

In your opening statement you note that HUD has undertaken a thorough review of its regulations in order to remove those restrictions that are unnecessary. Could you please describe what regulatory streamlining has occurred in your public housing program since the initiation of this review?

Secretary PIERCE. Yes. We have made some changes in our lease and grievance procedure which will relieve the PHA's from getting involved in eviction proceedings. We have also changed the utility allowances to allow the public housing authorities to set utility allowances based on their own experience. We have also made changes in the public housing management regulations. They are not completed as yet.

In fact, they are in the process of clearance at HUD. But the idea is that we will set up two tiers of public housing authorities; one tier to be essentially deregulated, the other to get certain management advice. We also have made changes in the CIAP program. We have tried to cut down on the paperwork and remove many of the requirements for approvals that we previously had in those regulations.

Those are mainly the things we have been doing.

ASSISTANCE TO EXISTING HOUSING STOCK

Senator GARN. In your opening statement you note that we can no longer afford to subsidize rental housing production. You state that a better approach is to extend the life of our existing stock and facilitate production for the special needs of elderly and handicapped persons.

How does your fiscal year 1983 budget address the issue of extending the life of the existing stock?

Secretary PIERCE. Well, we have a program, a rental rehabilitation program that we have submitted. It will be for $150 million and involve 30,000 units. The idea of that program is to try to improve housing that can be rented and will be aimed toward those localities where there is not sufficient rental housing. That is our main thrust in this program.

I might also say that we are suggesting to PHA's that they use part of the money that they may have for new housing to modernize existing public housing. And that suggestion is that they get a two-to-one trade, so to speak, if they have two units of new housing, they can trade those for money equivalent to one unit to modernize their public housing.

ELDERLY HOUSING REQUEST TO OMB

Senator GARN. The fiscal year 1982 budget comtemplates a section 202 program of approximately 16,900 units. Your fiscal year 1983 request is for 10,000 units.

What was your original request to OMB for section 202?

Secretary PIERCE. 10,000 units.

Senator GARN. Do you believe that the 10,000-unit level is a reasonable annual target for fiscal year 1984 and the outyears?

Secretary PIERCE. I think it is a reasonable target. We have 33,000 units of 202 housing in the pipeline at the present time and we think the additional 10,000 units is a reasonable amount considering the austerity of our budget.

Senator GARN. In this case, you were not cut back by OMB. Your request was for 10,000 units?

Secretary PIERCE. OMB did not want to give us anything; our request was for 10,000. The OMB mark was for zero, and we got 10,000 units.

Senator GARN. I wonder where the people at OMB live?

Secretary PIERCE. I do not know. I want to get that straight that we got the 10,000 units we requested.

MODIFIED CERTIFICATES

Senator GARN. The administration intends to replace the current section 8 existing housing program with a voucher-like system of housing certificates. These certificates would be phased in over several years as existing section 8 commitments expire. In fiscal year 1983, you are asking for the authority to enter into commitments for 107,000 certificates. By 1988, the Department is expected to have over 910,000 assisted housing units under the certificate program.

Critical to this policy change is the issue of whether or not an adequate supply of standard quality housing is available to meet the needs of potential certificate holders. In response to this question, HUD has reported that no national rental housing shortage exists but that shortages in certain local markets may be found.

What recommendations are you making to address these tight market areas, because the national average, as I just stated, may not indicate any problems, but there are some areas that have some very difficult problems.

Secretary PIERCE. Well, we are submitting our rental rehab program, so that is one way of alleviating the situation.

In addition to that, we also would urge that cities and localities use part of their CDBG funds, when necessary, for housing purposes. That is another way of helping the situation.

Senator GARN. How are these recommendations reflected in your fiscal year 1983 budget request?

Secretary PIERCE. Well, it is reflected in the rehab program as a request, but not in CDBG as a specific request in this budget.

Senator GARN. Our experience is that the existing section 8 program reveals that there is a higher participation among small families and elderly households.

Since the modified certificate program is patterned after section 8 existing, do you believe that it would be more difficult for large families to obtain housing under the new program as it has been under the existing section 8 program?

Secretary PIERCE. No; I do not believe so.

HOUSING FOR HANDICAPPED

Senator GARN. What about the special housing needs for the handicapped, do you think an adequate supply of handicapped-accessible housing units currently exists?

Secretary **PIERCE**. No; I do not think there is an adequate number. I do not think there is housing for every handicapped person in the country, but I do think that there is a satisfactory amount given our present budget constraints.

COST OF MODIFIED CERTIFICATES

Senator **GARN**. One of the concerns raised about the certificate program is that although the Government can take advantage of the lower subsidy costs associated with existing units today, the long-term effect, in a tight rental market, could eventually make the certificate program very expensive.

Do you think that this is a serious consideration and what long-term cost studies has the Department done to determine the effect of the certificate program in a tight market?

Secretary **PIERCE**. I will let Dr. Savas answer that question.

Mr. **SAVAS**. Mr. Chairman, we have an overwhelming amount of information on that question from the experimental housing allowance program which lasted over 10 years and on which we spent approximately $150 million in actual field tests of vouchers and believe we have successfully and authoritatively answered that question. The housing allowance program, or the voucher program, does not result in an inflation in cost of housing; it has worked well in tight markets and in loose housing markets and markets with high vacancy rates and low vacancy rates, in rural and urban areas. It is a well-tested program and the budget and legislative changes we are proposing, in a sense, reflects the benefits of all our studies.

EVALUATION OF MODIFIED CERTIFICATES

Senator **GARN**. Have you made plans to evaluate the new certificate program?

Mr. **SAVAS**. If the revised certificate program is approved by the Congress, we certainly will be evaluating it. We already have underway an effort to improve the monitoring activity for the section 8 existing program.

Senator **GARN**. Have you found, in the studies that have been done in the past, that there are any areas in the country where tight rental market supply may exclude participation among some of the eligible population?

Mr. **SAVAS**. Not at all. Our experience with the existing section 8 program, which is being utilized by about 862,000 households, has been that all the certificates are absorbed.

As your question earlier suggests, large families take longer to find suitable housing, but they also participate fully in the program in relatively the same proportion as their numbers in the eligible population do. They have a slightly harder time finding a suitable place if they must move into a standard unit in order to participate.

COST EFFECTIVENESS—VOUCHERS VERSUS NEW CONSTRUCTION

Senator GARN. You found in some cases construction programs in the long run have become cost effective. I know all of the examples of those which have not. Do you have any fears that the voucher program could become even more expensive than the subsidies program, even in areas where the program has been run well?

Mr. SAVAS. The only fear or real concern is not the comparison of vouchers to construction programs. I think the evidence is unambiguous on that as to which is most cost effective. The danger or the potential concern is if it is transformed into an entitlement program. As long as we are moderate and modest in our expectations, that will not occur. If we are dealing with an entitlement program, either the voucher program and the construction program would be very expensive.

The construction program will be approximately three times as expensive as the voucher program, however you do it. That is the only concern.

Senator GARN. Your fear is if we turn the program into a food stamp program, with simple criteria and without any limits on the amount of the expenditures?

Mr. SAVAS. That is correct; that is the fear.

PERMANENCY OF VOUCHER PROGRAM

Senator GARN. On November 6, you are quoted in an article appearing in the Washington Post as stating that you are hopeful that interest rates would decrease enough during 1984 and 1985 that a voucher system would not be necessary in the future.

To what extent do you now believe that the modified certificate program being proposed by the Department represents a long-term commitment to this type of public assistance?

Secretary PIERCE. I think that statement was really a big hope. Realistically, I doubt if we will reach that point. I think that we will have to continue the use of the voucher program into the future. The way we have it planned is that by 1985 we will increase the number of units that we are servicing from 3.4 million to about 3.8 or 3.9 million. Consequently, as far as the future is concerned, I see us continuing this program.

STATUS OF CURRENT ASSISTED HOUSING STOCK

Senator GARN. In February, the subcommittee asked for an accounting of the net effect of the Department's budget request during fiscal years 1981, 1982, and 1983 on the section 8 and public housing stock. That analysis indicates that in fiscal year 1981, approximately 146,000 units of section 8 housing and 13,000 units of public housing would be added to the inventory. In fiscal year 1982, 2,600 units of section 8 housing would be added to the inventory and the public housing inventory would lose approximately 25,000 units for a net total of about minus 22,000 units. Your fiscal year 1983 budget proposes an increase of approximately 14,000 units of section 8 and a net decrease of 50,000 units in public housing for a total change in the inventory of minus 36,000 units.

Does this trend indicate that the Department's intent is to shrink the existing inventory over an extended period of time down to some predetermined level?

Secretary PIERCE. Not to any predetermined level, but our emphasis right now is on management improvement and modernization rather than building new public housing. We intend to try to emphasize rehabilitating it and modernizing it.

CIAP PROGRAM

Senator GARN. The comprehensive improvement assistance program (CIAP) requires that each PHA applying for modernization prepare and submit a comprehensive assessment of the physical and management improvements required. To date, how many PHA's have submitted such a plan and what percent of the total PHA's that are eligible for CIAP funds does this represent?

Secretary PIERCE. I will ask Mr. Abrams to answer the question.

Mr. ABRAMS. Mr. Chairman, last year about 768 housing authorities received funding under the modernization program. This year, as the funds go out in the next several weeks, we expect that more housing authorities will submit their CIAP plans for comprehensive modernization and we will approve them as they are submitted, just as we did in fiscal year 1981.

Senator GARN. What action has HUD taken on these plans in terms of review and approval?

Mr. ABRAMS. We approved the 768 plans that were funded last year. Our field offices continue to work with the housing authorities in the hope that we are going to be able to approve a like number this year and get everybody into the new program.

STATUS OF CIAP REGULATIONS

Senator GARN. What is the current status of HUD's regulations to formally implement the comprehensive modernization program and when will these regulations be finalized?

Mr. ABRAMS. The final rule was released by HUD yesterday on those CIAP regulations.

Senator GARN. That is the fastest answer I have ever had from HUD in 8 years.

Mr. ABRAMS. We spent a lot of time working on it. As the Secretary said earlier, we think this is an important part of the program and we have developed CIAP into a two-tier-type approach so that those housing authorities that do not need assistance in completing their modernization program will have a one-step funding process. For those housing authorities that do need help we will concentrate our staff resources and we will work closely with them. We also have provided CIAP regulations to them so they can hire consultants to help them with their modernization program. These housing authorities will have a two-step funding process so that we will be more involved with those who need whatever expertise HUD can provide.

BASIS FOR MODERNIZATION FUND ASSIGNMENTS

Senator GARN. What is the basis for the Department's allocation of modernization funds to the HUD regional and area offices?

Mr. ABRAMS. PD&R hired a consultant to do a study several years ago, the Perkins and Wills study, which looked at all the housing authorities, and on the basis of that study we are allocating funds to respond to what it turned out as the needs of the different housing authorities.

Senator GARN. Has the Department determined how much each PHA must set aside for its project replacement reserve?

Mr. ABRAMS. We have not done that yet. We have provided that CIAP funds can be used for funding replacement reserve. We have not gotten down to the technical aspects of how much the reserve should be for different housing authorities.

TECHNICAL ASSISTANCE FOR CIAP

Senator GARN. Is the Department still concerned about the PHA's lack of management capability to effectively spend these modernization funds?

Mr. ABRAMS. We will be concentrating our staff efforts on those housing authorities that we feel do not have the expertise. As I said, the CIAP regulations will allow the housing authorities to hire expertise from the private sector to work with them on their modernization program.

USE OF RECAPTURES FOR MODERNIZATION

Senator GARN. Your fiscal year 1983 budget assumes that the entire $1.8 billion for public housing modernization would be available through the cancellation of outstanding reservations for the construction of new public housing projects.

In order to implement this plan, you are assuming the recapture of $2.6 billion, or the cancellation of approximately 18,000 public housing units.

What was the basis for the Department's estimate and how does this cancellation rate compare to the rate experienced in fiscal year 1981 and fiscal year 1982 to date?

Mr. ABRAMS. In fiscal year 1981, there were 13,000 units canceled out of the public housing pipeline. We do not have accurate figures for 1982 yet. But in analyzing the pipeline of 155,000 units that were there, some 45,000 units are not viable projects that are going to move forward. They represent previous obligations that are being warehoused, so to speak, in the field, and would provide the resource for recapture to the housing authorities who have not moved forward with those development projects.

Most of them are commitments going back over 2 years and some of them as long as 8 years. We are confident that the housing authorities will have those resources. The problem would be to match the modernization requirements with the amount of development funds that can be deobligated from infeasible projects. That is a problem that we can confront because we have the $1.8 billion proposal for not only recapture of development funds for modernization on a 2-to-1 basis, but also for some reallocation of recaptures for housing authorities that do not have adequate development authority warehoused that they can use for modernization.

IMPROVING PHA MANAGEMENT

Senator GARN. What assistance or special programs do you have to increase capacity to effectively and efficiently expand modernization funds?

Mr. ABRAMS. We are allowing for CIAP funds to be used to hire consultants. Also, by splitting them into two tiers and deregulating the housing authorities that have the management expertise to put the program into effective use, we can then concentrate our resources on those housing authorities that need assistance from HUD.

Senator GARN. What will your new regulations do to provide a common level of quality at which projects are to be maintained to assure that projects are not overimproved?

Mr. ABRAMS. In that Perkins and Wills study that PD&R did, they came up with three different levels of what the moderization goals could be. We have chosen level 2, which is the middle of the three levels, which basically would provide for the housing authorities to bring their properties up to minimum property standards but not to exceed minimum property standards when spending modernization funds.

Senator GARN. You will still be giving priority to special purpose modernization, especially energy conservation and health and safety problems?

Mr. ABRAMS. Safety and health problems are the No. 1 priority for the use of modernization funds. These funds are allocated on emergency basis and energy conservation remains a priority.

DEMOLITION OF PUBLIC HOUSING

Senator GARN. Your 1983 budget justification includes funds for the demolition of 5,000 units of public housing.

What criteria did the Department establish to select the units to be demolished?

Mr. ABRAMS. We have asked the public housing authorities to initiate a study of their own projects and consult with local governments and decide for themselves which projects are social and economically viable, with particular emphasis on those projects which they are keeping in their stock, those projects that are energy conservative, and those projects which can be kept as safe and decent housing with the least amount of modernization funds and with the least requirement for operating subsidy.

We are not telling housing authorities to begin a demolition program or disposal program, but we are asking them to look introspectively with local government to make some kind of value judgment if there are projects that should be maintained in the stock.

Senator GARN. Is this a one-time demolition or do you expect to select other projects for demolition in fiscal year 1984?

Mr. **Abrams**. We expect another 5,000 units as an estimate in 1984. Both of which are not significant numbers in terms of the 1.2 million units in the stock. As an ongoing part of CIAP we will expect them to continue to evaluate their projects and determine which ones are not viable.

MODERNIZATION—FISCAL YEAR 1982 TO DATE

Senator **Garn**. Last year you estimated that 86,386 PHA units had chronic problems requiring modernization. You also estimated that 54,000 of these units could be modernized with the $1.5 billion in fiscal year 1982 funds. As you know, the Congress provided $1.8 billion in fiscal year 1982.

How many units have been modernized to date with the fiscal year 1982 funds?

Mr. **Abrams**. No units have been modernized with the 1982 funds because we are just distributing them. The first $300 million, which was the carryover from 1981, will be distributed this week. The balance of the funds, the $1.5 billion, will be distributed in accordance with the 1982 Appropriations Act within the next 2 weeks unless the urgent supplemental changes that. We are proceeding in accordance with the apportionment that we got from OMB on April 26 which relates to the original Appropriation Act.

We have done an updated study of the 50 largest housing authorities to look at what their total demand is for modernization. That study, which we can submit in detail analyzing those housing authorities, indicates that for the largest 50 PHA's there is a need for about $300 million worth of contract authority for modernization in just those top 50 housing authorities.

Senator **Garn**. Thank you, Mr. Abrams.

Mr. Secretary, we have done far better than I thought we would this morning. All my apologies were apparently unnecessary. It is not unusual to be wrong about the schedule around this place. I am glad that I was wrong and glad I did not cancel the hearing. I suspected that the schedule for the day might not be quite as bad as we had anticipated.

In any event, I will close the hearing for today. We will have additional questions for you tomorrow.

SUBCOMMITTEE RECESS

I appreciate very much all of your attendances, and the subcommittee will stand in recess until May 19 at 10 a.m., when we will continue to receive testimony from HUD and, in addition, we will receive testimony from the Neighborhood Reinvestment Corporation.

Thank you very much.

[Whereupon, at 10:55 a.m. Tuesday, May 18, the subcommittee was recessed to reconvene at 10 a.m. Wednesday, May 19]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

WEDNESDAY, MAY 19, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m. in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, Huddleston, and Proxmire.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY

ACCOMPANIED BY:
- DONALD I. HOVDE, UNDER SECRETARY
- E. S. SAVAS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
- PHILIP ABRAMS, GENERAL DEPUTY ASSISTANT SECRETARY FOR HOUSING—DEPUTY FEDERAL HOUSING COMMISSIONER
- JOHN KNAPP, GENERAL COUNSEL
- ROBERT W. KARPE, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
- STEPHEN BOLLINGER, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT
- WARREN T. LINDQUIST, GENERAL MANAGER, NEW COMMUNITY DEVELOPMENT CORPORATION
- ANTONIO MONROIG, ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY
- STEPHEN MAY, ASSISTANT SECRETARY FOR LEGISLATION AND CONGRESSIONAL RELATIONS
- JUDITH L. TARDY, ASSISTANT SECRETARY FOR ADMINISTRATION
- CHARLES L. DEMPSEY, INSPECTOR GENERAL
- LANCE WILSON, EXECUTIVE ASSISTANT TO THE SECRETARY
- DANIEL HUGHES, DEPUTY UNDER SECRETARY FOR FIELD COORDINATION
- JUNE KOCH, DEPUTY UNDER SECRETARY FOR INTERGOVERNMENTAL RELATIONS
- ALBERT J. KLIMAN, DEPARTMENTAL BUDGET OFFICER

SALE OF SEVEN HUD-OWNED PROPERTIES

Senator GARN. The subcommittee will come to order.

Mr. Pierce, we are happy to welcome you back today. And I will first turn to Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Secretary, it is a pleasure to see you.

Secretary PIERCE. Good to see you, sir.

Senator PROXMIRE. I would like to start off by reading from an article by Howie Kurtz that appeared in the Washington Post on May 11:

> Federal housing officials have arranged to sell seven housing projects without competitive bidding, to a company that includes Edward L. Weidenfeld, the lawyer for President Reagan's campaign committee, and Weidenfeld's wife, Sheila, who was press secretary to former First Lady Betty Ford.
>
> In an unusual $11 million package deal, top officials at the Housing and Urban Development Department decided to bypass the standard procedure of putting the Government-owned apartment buildings up for bidding at a public auction.
>
> This decision was approved by Philip D. Winn, who until recently was the Assistant Housing Secretary in charge of such HUD properties. The idea was proposed to him by Sheila Rabb Weidenfeld, who had served on a Reagan transition advisory group dealing with housing and historic preservation. Other HUD officials have tentatively approved the sale and say they expect to sign the final papers within several weeks.
>
> Sheila Weidenfeld owns 20 percent of the stock in First American Housing Preservation Corp., which she helped form last fall to acquire these HUD-owned properties. Edward Weidenfeld, who still handles leftover legal matters for the Reagan-Bush Committee, is a director of the company and has represented the firm as an attorney in the negotiations.
>
> Federal records show that the sale of seven properties in the New York area includes a variety of financial benefits for the company; a below-market mortgage rate of 11½ percent; a potential profit that HUD estimates at more than $1 million; tax breaks that can both be used by the partners and sold to outside investors for more profits; a separate fee for managing the buildings; and a sale price nearly $600,000 less than HUD officials estimate the buildings might bring on the open market. In addition, HUD will lend most of the firm's $4 million down payment back to the company at just 2½-percent interest and allow the firm to convert two of the buildings to condominiums.

Of course, a public auction insures that taxpayers receive a fair market value for their property and that no favoritism occurs at the expense of the taxpayers. I would like to ask some questions about this transaction.

SALE OF PROPERTIES BY NEGOTIATED PRICE

How many properties have been sold at a privately negotiated price since January 20, 1981; in other words, since the current administration took office?

Secretary PIERCE. I would not know the exact answer, but I could get that and put it in the record for you. I don't know the answer to that off the top of my head.

Senator PROXMIRE. Would you provide the committee with information on all such sales, listing by property the date of sale, the price, and to whom the property was sold?

Secretary PIERCE. Yes.

[The information follows:]

NEGOTIATED MULTIFAMILY SALES APPROVED SINCE JANUARY 1981

A list of negotiated multifamily sales approved since January 1981 is attached:

Negotiated Sales Approved Since January 1981

Closed FY 1981

Region	Area Office	Project	Units	Sales Price	Sales Terms	Purchaser
III	D.C.	Lincoln Apts.	21	$ 1	Cash	City
IV	Columbia	Northgate Apts.	42	253,100	Cash	Hsg Authority
V	Detroit	1300 Lafayette	336	9,000,000	PMM	Coop
VI	Dallas	Rebekah Johnson	168	900,000	Cash	City of Austin

Closed FY 1982

Region	Area Office	Project	Units	Sales Price	Sales Terms	Purchaser
V	Cincinnati	Haddon Hall	113	$63,000	Cash	City
	Indianapolis	Adult Student Hsng	183	150,000	Cash	University

Not Closed

Region	Area Office	Project	Units	Sales Price a/	Sales Terms a/	Purchaser
I	Boston	Warren Gardens	228			Coop
	Hartford	Antillean Manor	31			Coop
		Chapel-Kensington	49			Nat'l Hsng
II	New York	Mott Haven	(6-304)			Demolish
III	Philadelphia	Hillrise Apts	152			Coop
IV	Jacksonville	Cedars of Lebanon	(2-300)			County Hospital
V	Chicago	Bluff Plaza	60			Private Developer
	Cincinnati	Kadco "B"	6			County Health Agency
		Saint's Rest #4	22			City

Negotiated Sales Approved Since January 1981

Not Closed (Cont.)

Region	Area Office	Project	Units	Sales Price a/	Sales Terms a/	Purchaser
V	Cincinnati	United Services "B"	(0-3)			Demolish
		Wide World "B"	(0-8)			Sale to nonprofit with City Involvement
		Wide World "C"	(0-8)			Sale to nonprofit with City Involvement
	Cleveland	Rosewood	Vacant Land			Nonprofit
	Detroit	Huron Towers	360			Coop
	Indianapolis	Eastside Apollo #1	(0-14)			Hospital
	Minneapolis	Cecil Newman Courts	100			Public Housing Authority
	Minneapolis	Girard Terrace East	Vacant Land			Public Housing Authority
IX	Phoenix	Canyon deChelly	61			Tenants

a/ No data are available on the sales price and sales terms since these projects have not yet been closed.

SALE AT PUBLIC AUCTION

Senator PROXMIRE. Why didn't HUD put these properties up for public auction either individually or as a package?

Secretary PIERCE. As I understand it, this is a business way of trying to get the most return for the Government. We have properties, as you know, all over, and some of these properties really have negative value. It would cost more to put them in liveable condition than they are really worth and it is very difficult to sell that kind of property. If we put it up for auction, we would get no bidders.

So what this organization did, they came to HUD and said, "Look, you have some properties that have negative value and you could not get anything on them anyway. What we would like to do is to put together a package, including some of these poor properties, and try to make a deal that will make the Government more money than it could possibly make if these properties were individually put up for public auction."

It seems to make sense. It was gone into very thoroughly by Mr. Winn and his staff, and I have here with me Mr. Phil Abrams who is thoroughly familiar with the details of it and I am sure he would be happy to discuss all of the thinking that went into it at the time, if you are interested.

Senator PROXMIRE. I recognize that response as sincere and perhaps, completely correct, but I think the only way we can tell is to look into the Department's analysis of the offer.

ANALYSIS OF MARKET VALUE

In negotiating the proposed price of the sales package, did the Department perform an analysis of the market value of each project, and more specifically, did this analysis include an analysis of the tax benefits of purchasing the projects?

Secretary PIERCE. At this point, I would like to have Mr. Abrams answer those questions because he actually worked with the process.

Mr. ABRAMS. I became familiar with this after Mr. Kurtz came to the Department and made inquiries about what happened and I have gone back to the other process that took place. The Department did do an analysis of what the top price that we might get in a straight sale of the properties individually would be. We came up with a figure of around $11 million, which is about half a million dollars more than the negotiated price. But, that $11 million is an estimate.

ESTIMATE OF SALES PRICE AND TAX BENEFITS

Senator PROXMIRE. Do you have a breakdown of that analysis? I won't ask for the details for the moment. We would like to have for the record a breakdown with the working papers showing property for property, what your estimates were of what you would get if you sold each project, and also the cost of rehabilitating before sale the properties that are less desirable.

Mr. ABRAMS. Yes, sir.

Senator PROXMIRE. Can you include in that analysis the tax benefits to the purchaser?

Mr. ABRAMS. We can. We could not at that point, but we can include that.

Senator PROXMIRE. Those tax benefits had not been included when you made the initial calculations?

Mr. ABRAMS. The tax benefits relate to transferability of those actions to the developer. I must say they are considerable and the syndication process is a part of every real estate transaction, and particularly every HUD transaction. It is not unique to this particular deal. There is also an element of great risk and there is no guarantee that the cost of rehabilitating the projects and of the rent-up periods are going to allow for the maximum profits that might be realized. But we will analyze the syndication process as well.

[The information follows:]

ANALYSIS OF MARKET VALUE

Attached are two analyses showing how the Department determined the market value of the projects proposed for sale to the FAHPC. Table I—Summary of Computation of the Market Value—shows the price (fully repaired value) for which the Department could offer the project if the repairs were performed exclusively by the Department versus the sales price (market value) offered if the repairs are made by the purchaser. Table II—Cost of Repairs—reflects the total rehabilitation cost of each project, including the portion to be absorbed by the Department and the amount the purchaser would pay.

The Committee staff has been supplied the working papers which detail the analyses of each project's proposed sale price to FAHPC.

TABLE I

SUMMARY OF COMPUTATION OF MARKET VALUE

NAME OF PROJECT	FULLY REPAIRED VALUE	LESS: REPAIRS TO BE MADE BY PURCHASER	LESS: OPERATING DEFICIT	AS-IS VALUE (MARKET VALUE)	SALE PRICE TO FAHPC
1. Mt. Prospect (unsubsidized)	$1 a/	...	...	$1	$500,000 a/ b/
2. Park Towers (unsubsidized)	$2,072,000	$108,000	...	$1,964,000	1,964,000
3. Sherwood Village (subsidized)	2,592,700	1,236,000	$526,500	830,200	830,200
4. Gregory III (subsidized)	1,902,400	1,163,120	...	739,280	739,280
5. University Towers (subsidized)	1,939,100	800,000	...	1,139,100	1,139,100
6. Evergreen Apts (subsidized)	1,809,600	129,600	...	1,680,000	1,680,000
7. Surrey-Carleton (subsidized)	2,540,550	1,600,000	291,225	649,325	649,325
Total	12,856,351	5,036,720	817,725	7,001,906	7,501,905

a/ HUD's estimate of market value since income does not support expenses.

b/ Represents the all cash offer of FAHPC. The rehabilitation cost is included with this sale price.

TABLE II

COST OF REPAIRS

NAME OF PROJECT	TOTAL ESTIMATED COST OF REPAIRS a/	REPAIRS MADE BY HUD b/	REPAIRS NOT TO BE MADE	REPAIRS TO BE MADE BY PURCHASER
1. Mt. Prospect	$30,000	$30,000	...	...
2. Park Towers	295,210	187,210	...	$108,000
3. Sherwood Village	1,236,000	...	...	1,236,000
4. Gregory III	1,163,120	...	...	1,163,120
5. University Towers	800,000	...	...	800,000
6. Evergreen Apts	725,840	596,210	...	129,600
7. Surrey-Carleton	1,600,000	...	...	1,600,000
Total	5,850,170	813,450	...	5,036,720

a/ If all of these repairs were made, the project could be sold at a price representing the fully repaired value in Table I.

b/ These repair costs have been included in the sales price.

COST TO GOVERNMENT OF TAX BENEFITS

Senator PROXMIRE. But unless you had an analysis at the time of the value of the tax benefits, it seems to me it was very hard for you to tell whether or not this was a good deal for the Government. How would you know that the Government wouldn't have been better off going ahead and selling the property individually unless you knew just what the tax cost to the Government would be?

Mr. ABRAMS. As I said, all of our subsidized programs, as well as other HUD insurance programs, never take into account the syndication proceeds and the tax benefits.

Senator PROXMIRE. Don't you think that is a shortcoming? Don't you think the tax benefits should be taken into account? It is a cost to the Government.

Mr. ABRAMS. Cost to the Treasury.

Senator PROXMIRE. I know that at one point one of the people who was on the other side negotiating this deal said that the whole package wouldn't be worth anything without the tax benefit. Those benefits are what makes the deal go. The only reason they got into it was because of the tax benefit.

Mr. ABRAMS. That is right.

Senator PROXMIRE. From that standpoint, shouldn't you work with the Treasury Department to find out what the tax loss to the Government would be so that you could make a reasonable decision on the overall cost and benefit to the Government?

Mr. ABRAMS. It would be, except that no matter who bought the property, whether or not we sold in auction or individually to a negotiated sale, the tax benefit is going to accrue to whomever. It is not a variable in analyzing the deal.

But we will do an analysis for you and submit it for the record.

[The information follows:]

TAX BENEFIT ANALYSES

The analyses of the tax benefits expected to result from the proposed sale for each project are as follows:

ASSUMPTIONS

(1) All projects sold on July 1, 1982, to First American Housing Preservation Corp. (FAHPC) per their offer.

(2) Mount Prospect and Park Towers converted to co-op or condo on July 1, 1984, after 10 percent yearly increase in value.

(3) Rental income and project expenses increase at 8 percent/year, 95-percent occupancy.

(4) Deductible expenses are HUD cost estimates, less social security, payroll taxes, replacement reserve, plus interest on 11 1/2 PMM's computed at flat rate over 40-year term. (This item will vary in actuality as expense picture alters. Owners will probably deduct other items.)

(5) Depreciation based on most favorable option under 1981 Tax Act. All section 167(k) rehab—expenses are fully deductible over 60-month period with no net effect on cost basis.

(6) Tax benefits—assume taxpayers in the 50-percent bracket.

(7) Tax on preference items, investment tax credits—if any—and other minor variables are ignored because they depend on detailed information and tax position of individual investors.

I. Mt. Prospect - Sale at end of 2 years

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	232,612	254,735	25,500	47,623	23,812
1983	502,441	550,228	46,750	94,537	47,269
1984(1/2)	271,318	297,123	21,250	<54,444>d/	<27,222>e/

a/ Rental Income = 95 percent of 1982 ($465,223) increasing 9 percent per year.

b/ Expenses = 1982 ($532,997), less payroll tax, reserve for replacement = $509,470 (no interest expense).

c/ Depreciation = 175 percent ACRS declining balance (no §167(k) rehab).

d/ Represents taxable income.

e/ 1984 figures include sale of property on July 1, 1984 for $605,000 ([illegible] percent per year increase in value), producing $1[illegible],6[illegible]8 in long-term gain and $36,832 in recaptured depreciation.

II. Park Towers

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	186,452	110,126	102,000	25,674	12,837
1983	402,737	237,871	187,000	22,134	11,067
1984(1/2)	217,478	128,450	85,000	<410,028>d/	<205,014>e/

a/ Rental Income = 95 percent of 1982 = $372,905, increases 9 percent per year.

b/ Deductible expenses = 1982 estimate $273,861 less $7,000 payroll tax, $46,610 replacement reserve = $220,251, increases 8 percent per year.

c/ Depreciation = 175 percent ACRS declining balance on cost basis of building of $1,700,000 (85% of cost). No §167(k) rehab.

d/ Represents taxable income.

e/ 1984 figures include sale on July 1, 1984 for $2,420,000 (10 percent per year increase in value), producing $646,667 long-term gain and $147,333 recaptured depreciation.

III. Sherwood Village

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	722,363	507,763	236,725	22,125	11,063
1983	1,560,305	1,080,597	430,100	<49,608>d/	<24,804>
1984	1,685,129	1,150,875	408,425	<125,829>	<62,915>
1985	1,819,939	1,226,775	365,075	<228,089>	<114,045>
1986	1,965,534	1,308,747	343,400	<313,387>	<156,694>
1987	2,122,777	1,397,277	236,725	<488,775>	<244,388>
1989	2,292,599	1,596,150	108,375	<588,074>	<294,037>
1990	2,476,007	1,707,672	108,375	<659,960>	<329,980>
1991	2,674,088	1,828,116	108,375	<737,597>	<368,799>
1992	2,888,015	1,958,195	108,375	<821,445>	<410,723>
1993	3,119,056	2,098,681	108,375	<912,000>	<456,000>
1994	3,368,581	2,250,405	108,375	<1,009,801>	<504,901>
1995	3,638,067	2,414,267	86,700	<1,137,000>	<568,500>
1996	3,929,113	2,591,238	86,700	<1,251,175>	<625,588>
1997(1/2)	2,121,721	1,391,184	43,350	<687,187>	<343,594>

a/ Rental Income = Based on 95 percent occupany rents in 1982 of $1,337,710 increasing 9 percent per year.

b/ Deductible expenses = operating expenses and taxes; less replacement reserve, payroll tax, social security; plus interest of $202,125 per year.

c/ Depreciation ACRS 200% declining balance for 15 years using increasing table plus IRC §167(k) 5-year on rehab expense. Cost basis in building of $1,895,500 (85% of sales price).
Rehab expenses of $850,000 (all deductible over 5-year period) on 203 unit project ($4,187 per unit)

d/ Represents taxable income beginning in 1983.

IV. Gregory Park

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	439,698	322,950	207,685	90,937	45,469
1983	949,748	687,198	377,460	114,910	57,455
1984	1,025,458	731,746	358,505	64,793	32,397
1985	1,107,495	779,858	320,595	<7,042> d/	<3,521>
1986	1,196,095	831,819	301,640	<62,636>	<31,318>
1987	1,291,783	887,936	207,685	<196,162>	<98,081>
1988	1,395,126	948,543	113,730	<332,853>	<166,427>
1989	1,506,736	1,013,998	94,775	<397,963>	<198,982>
1990	1,627,275	1,084,690	94,775	<447,810>	<223,905>
1991	1,757,457	1,161,037	94,775	<501,645>	<250,823>
1992	1,898,053	1,243,492	94,775	<559,786>	<279,893>
1993	2,049,897	1,332,543	94,775	<622,579>	<311,290>
1994	2,213,889	1,428,718	94,775	<690,396>	<345,198>
1995	2,391,100	1,532,587	75,820	<782,593>	<391,297>
1996	2,582,280	1,644,765	75,820	<865,695>	<432,848>
1997(1/2)	1,394,431	882,934	37,910	<473,587>	<236,794>

a/ Rental Income = 95 percent occupany = $879,396 in 1982, 9 percent increase per year.

b/ Deductible expenses - same as Sherwood method.

c/ Depreciation - same ACRS 200 percent declining balance with §167(k) 5 years on $750,000

d/ Represents taxable income beginning in 1985.

V. University Towers

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	371,156	231,460	121,650	<18,046> d/	<9,023>
1983	801,696	499,954	231,400	<70,342>	<35,171>
1984	865,832	539,950	225,450	<100,432>	<50,216>
1985	935,098	583,146	213,550	<138,402>	<69,201>
1986	1,009 906	629,798	207,600	<172,508>	<86,254>
1987	1,090,698	680,182	121,650	<288,866>	<144,433>
1988	1,177,954	734,597	35,700	<407,657>	<203,829>
1989	1,272,190	793,365	29,750	<449,075>	<224,538>
1990	1,373,965	856,834	29,750	<487,381>	<243,691>
1991	1,483,882	925,381	29,750	<528,751>	<264,376>
1992	1,602,593	999,411	29,750	<573,432>	<286,716>
1993	1,730,800	1,079,364	29,750	<621,686>	<310,843>
1994	1,869,264	1,165,713	29,750	<673,801>	<336,901>
1995	2,018,805	1,258,970	23,800	<736,035>	<368,018>
1996	2,180,309	1,359,688	23,800	<796,821>	<398,411>
1997(1/2)	1,177,367	734,232	11,900	<431,235>	<215,618>

a/ Rental income = (95 percent occupancy) $742,311 increasing 9 percent per year.

b/ Deductible expenses = total expenses less payroll tax, social security tax, replacement reserve (no interest deduction) = $462,920 in 1982, 8 percent increase per year.

c/ Depreciation = ACRS 200 percent declining balance (§ 8 project) on cost basis of $700,000 total, 85 percent land = $595,000 with $800,000 rehab. expense (§ 167(k) depreciation 5 years ($4,761.90 per unit).

d/ Represents taxable income beginning in 1982.

VI. Evergreen Apartments

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	372,028	282,813	139,125	49,910	24,955
1983	803,579	599,985	248,500	44,906	22,453
1984	867,865	637,094	233,625	2,854	1,427
1985	937,294	677,172	203,875	<56,247> d/	<28,124>
1986	1,012,278	720,456	189,000	<102,822>	<51,411>
1987	1,093,260	767,202	139,125	<186,933>	<93,467>
1988	1,180,721	817,688	89,250	<273,783>	<136,892>
1989	1,275,179	872,213	74,375	<328,591>	<164,296>
1990	1,377,193	931,100	74,375	<371,718>	<185,859>
1991	1,487,368	994,698	74,375	<418,295>	<209,148>
1992	1,606,357	1,063,384	74,375	<468,598>	<234,299>
1993	1,734,866	1,137,565	74,375	<522,926>	<261,463>
1994	1,873,655	1,217,680	74,375	<581,600>	<290,800>
1995	2,023,547	1,304,204	59,500	<659,843>	<329,922>
1996	2,185,431	1,397,650	59,500	<728,281>	<364,141>
1997(1/2)	1,180,133	749,287	29,750	<401,096>	<200,548>

a/ Rental Income = 95 percent of 1982 = $744,055, increasing 9 percent per year.

b/ Deductible expenses = $504,500 expenses, less social security, payroll, replacement reserve, plus a flat $136,125 interest per year = $429,500 in 1982 plus 136,125 interest.

c/ Depreciation = 200 percent declining balance ACRS on building; cost basis of $1,487,500, plus $350,000 §167(k) rehab. 5 years.

d/ Represents taxable income beginning in 1985.

VII. Surrey/Carlton

	Rental Income a/	Deductible Expenses b/	Depreciation c/	Net Deductions	Tax Benefit or <Tax Liability>
1982(1/2)	451,907	264,325	229,615	42,033	21,017
1983	976,119	563,550	439,340	26,771	13,386
1984	1,054,209	601,242	429,395	<23,572> d/	<11,786>
1985	1,138,546	641,949	409,505	<87,092>	<43,546>
1986	1,229,630	685,913	399,560	<144,157>	<72,079>
1987	1,328,000	733,394	229,615	<364,991>	<182,496>
1988	1,434,240	784,674	59,670	<589,896>	<294,948>
1989	1,548,979	840,056	49,725	<659,198>	<329,599>
1990	1,672,897	899,868	49,725	<723,304>	<361,652>
1991	1,806,729	964,465	49,725	<792,539>	<396,270>
1992	1,951,267	1,034,230	49,725	<867,312>	<433,656>
1993	2,107,368	1,109,576	49,725	<948,067>	<474,034>
1994	2,275,957	1,190,950	49,725	<1,035,282>	<517,641>
1995	2,458,034	1,278,834	39,780	<1,139,420>	<569,710>
1996	2,654,677	1,373,749	39,780	<1,241,148>	<620,574>
1997(1/2)	1,433,525	738,128	19,890	<675,507>	<337,754>

a/ Rental income = 95 percent of 1982 rent = $903,814 increase 9 percent per year.

b/ Expenses = 1982 estimated $593,000, less social security, payroll tax, replacement reserve, = $436,250, increase 8 percent per year plus a flat $92,400 interest each year.

c/ Depreciation - Building basis (85% sales price) = $994,500; 200 percent ACRS declining balance. Section 8 project. Section 167 (k) rehab. of $1,600,000 (8,696 per unit.)

d/ Represents taxable income beginning in 1984.

TAX AND SYNDICATION PROCEEDS

HUD's Office of Inspector General is having the firm of Coopers & Lybrand prepare an analysis of the tax and syndication proceeds from this sale. This analysis will be provided separately.

SOLICITATION OF BIDS

Senator PROXMIRE. In that case, of course, the only way that you could determine whether the policy you followed was in the interest of the Government or not would be by soliciting some kind of bids.

Mr. ABRAMS. As the Secretary stated, this sales approach is unique. What is unique about this, and what prompted Mr. Winn to proceed on a demonstration basis and to continue negotiations, was that this development firm proposed to take five properties, two of which were desirable and three of which were of questionable value. We rejected that first offer. They came back with a second offer and took two additional projects that are absolutely unsaleable and have a negative value. One of them is largely unhabitable because the basements are flooded. This would have cost the Government a great deal of money and a great deal more time to put back into the housing stock than we could accomplish through a packaging approach with all seven properties included and going to one developer with a good track record in management and development who would assure that, among other things, that tenants in those buildings could expect to have the buildings brought up to safe and decent housing standards and be made available for occupancy.

That was what was attractive about the package, the fact that we could bundle these undesirable projects that had no value and could not be sold in auctions with the good projects.

Senator Proxmire. I don't question your sincerity, and the sincerity of the Secretary, as you attempted to work this out, but there is a clear and conspicuous political element involved here. After all, these are not people who just walked off the street. The offeror was a person who was press secretary to a former First Lady and a man who was a lawyer for President Reagan's campaign committee. Under these circumstances it seems to me it would be particularly important for the Department to be extraordinarily up front and just as open as it possibly could be in handling this transaction.

PROPERTY DISPOSITION COMMITTEES

Mr. Abrams. I agree with you. In the process of property disposition, contrary to the article—we did spend some time with the reporter trying to clarify some of these issues that did not come through clearly in the article—but the process involves a property disposition committee, not only in Washington, but in each field office, which he says we abolished. He missed the point. We have decentralized and set up property disposition committees in each area office, so this bundling approach which has been negotiated on a tentative basis now must be submitted to the property disposition committees in three area offices involved—Hartford, New York, and Newark—and all three must approve before it would come to Washington for a final disposition.

I think you have as many checks and balances on whether this is fulfilling our statutory obligation to maximize the receipts to the insurance fund. Although it does not take into account the tax benefits of syndication, as I noted before, we believe that this is going to serve that statutory mandate to get the most money for these properties.

CONSULTANTS USED IN PROPERTY DISPOSITION

Senator Proxmire. I understand that a HUD consultant, George Riley, put this package together. Why was it necessary to use a consultant? Couldn't HUD staff do the work?

Mr. Abrams. What we have done—because the property disposition process at HUD has taken an average of 3½ years to dispose of property and it cost us, at the last count, $9 per apartment per day while HUD owns these properties—to try and expedite the whole process, we have hired consultants. We have five throughout the country covering different regions. Mr. Riley is one of them who assisted with technical advice and appraisals and expediting the process of property disposition of the multifamily properties. Now we are getting into single-family properties that HUD is trying to dispose of more quickly.

Senator Proxmire. What other functions does Mr. Riley perform and how much was he paid?

Mr. Abrams. I am not sure how much he is paid. I could find that out.

Senator Proxmire. Would you provide that information for the record?

Mr. Abrams. Sure. His function is to expedite the property disposition procedures and efforts in the field and to make sure that we are maximizing the return to the Government on different projects. Through these consultants we have uncovered deals where we were about to sell projects on one basis or another at bargains to nonprofits or to cooperators on various projects and have been able to get a greater return to the insurance fund by getting closer to a fair market value when we do dispose of the properties.

[The information follows:]

CONSULTANT'S FEE

The contract negotiated with Mr. George Riley includes compensation for the consultant work performed at a rate of $55,000 per year. In addition, travel costs, as approved by the Government technical representative, will not exceed $20,000 per year.

CONSULTANT'S BACKGROUND

Senator PROXMIRE. What is Mr. Riley's background?

Mr. ABRAMS. I don't know, sir. I think I met him once.

Senator PROXMIRE. Will you give us that information for the record, too?

Mr. ABRAMS. Sure.

[The information follows:]

CONSULTANT'S BACKGROUND

Mr. George Riley's background is as follows:

1977-81—Hamilton Investment Trust, vice president, asset management department. This is a real estate investment trust dealing in institutional and corporate real estate. His responsibilities included negotiating sale of foreclosed properties, workout of distressed properties, and management work.

1976-77—Lincoln First Real Estate Credit Corp., assistant vice president for loan development. This is a mortgage banking subsidiary of Lincoln First Banks, Inc. His responsibilities included analysis of foreclosed properties, project management, and completion of projects.

1970-76—The Hanson Development Co., operational representative for the Midwest. At this real estate development firm, his responsibilities included leasing, management, and tenant construction coordination for shopping centers.

1968-70—Byrnes & Foody, an industrial real estate firm. Mr. Riley worked on all company-owned projects.

1961-68—United States Gypsum Co., salesman. The company supplied mason material to supply yards. Mr. Riley's responsibilities included supervision of employees and direct selling, servicing, and collection activities.

1958-61—U.S. Marine Corps.

KNOWLEDGE OF PURCHASER'S POLITICAL AFFILIATION

Senator PROXMIRE. Did those who negotiated the deal for HUD know that Mr. Weidenfeld was counsel to the President's political campaign committee and Mrs. Weidenfeld was on the President's transition team for HUD?

Mr. ABRAMS. I cannot say from personal knowledge.

Senator PROXMIRE. Will you find that out too?

Mr. ABRAMS. We will find that out.

[The information follows:]

KNOWLEDGE ABOUT PROPOSED PURCHASERS

HUD staff involved in negotiating the sale of the projects stated they were aware that the Weidenfelds were active in the Republican Party and that Mrs. Weidenfeld's father is the Ambassador to Italy.

REGULATORY LIMITS ON NEGOTIATED SALES

Senator PROXMIRE. The current Federal regulations for disposing of HUD-owned projects appear to limit negotiated sales to agencies of Federal, State, and local governments. However, I understand that in the case of formerly subsidized projects negotiated sales may also be made to nonprofit groups, cooperatives, and limited dividend entities.

Mr. ABRAMS. This is a limited dividend entity.

Senator PROXMIRE. Since this proposed package involves two formerly unsubsidized projects, is it a violation of your regulations to sell these two projects through the negotiated sales method?

Mr. ABRAMS. I do not know. If the facts are as you stated, it would be, unless that is waivable—unless that is a requirement that can be waived by the Department.

Senator PROXMIRE. But you personally don't know whether or not that is a violation of your regulations?

Mr. ABRAMS. I read the regulations the same way you do. The two things I do not know are, I was not aware that all the projects were not formerly subsidized and I am not aware whether that provision or that particular regulation has a waiver clause; some do and some do not.

Senator PROXMIRE. Could I ask the Secretary if any of his backup people know?

Secretary PIERCE. Can we get that for the record? Mr. Knapp is here but I do not know whether he knows it off the top of his head. He believes it is a waivable provision but we will actually research it and get an answer.

[The information follows:]

AUTHORITY TO SELL FORMERLY UNSUBSIDIZED PROPERTIES THROUGH NEGOTIATED SALES METHOD

In accordance with 24 CFR 290.7, the Assistant Secretary for Housing—Federal Housing Commissioner, has authority to "waive any provision of this part in any particular case subject only to statutory limitations * * *" This would include the use of negotiated sales. The waiver must be based on a determination and finding of good cause.

WAIVER OF REGULATIONS

Senator PROXMIRE. If this privately negotiated sale goes through, will the Secretary have to waive HUD regulations, and if so, what specific findings does he have to make.

Mr. ABRAMS. From what Mr. Knapp said, we would have to waive the regulations prohibiting negotiated sales of formerly nonsubsidized properties.

Senator PROXMIRE. What studies will have to be made to support a waiver?

Mr. ABRAMS. There are studies in a draft report that have come to me, though the final report has not come to me. They will be sent to each of these area office property disposition committees who will investigate and make a report.

Senator PROXMIRE. Will you provide copies of these studies for the committee?

Mr. ABRAMS. Yes, sir.

[The information follows:]

DETERMINATION AND FINDING FOR SALE

A draft of the determination and finding explaining the sale and requesting the appropriate waivers of the property disposition regulations is attached. This draft has not yet been updated to include the new method of sale which would allow any interested purchaser to submit an offer. The revised determination and finding will be submitted with the syndication analysis when that is completed. HUD's Office of General Counsel has not yet reviewed this determination and finding for legal sufficiency. Also attached are copies of the property disposition recommendations submitted by the appropriate field offices for each project.

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT - SUMMARY

SECTION ONE - BACKGROUND

Project Name Mt. Prospect Towers
Address 530 Mt. Prospect Avenue
City Newark, New Jersey
Project No. 031-00207 Sec. Act 207 ☐ Sub ☑ Unsub

Date Acquired 12-16-69 Area/Service Office Newark
Type
Elevator ✓
Walk-Up
Garden
Vacant Land
No. of Stories
Date Insured Rehab.
Year Completed 19
Percent Completed 100%
No. Buildings
Units 106 Revenue ✓ Nonrevenue

Neighborhood Immediate area possesses highrises; to the east and west are single-family homes. The south area appears to be in decline. It is in close proximity to schools, shops, hospitals, doctors, churches, major highways and public transportation.

SECTION TWO - PERCENT OCCUPANCY

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
'80	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
'81	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		

SECTION THREE - REPAIRS

Repairs to be Completed by HUD $ 34,900 By 11-1-81 (Date)
Repairs to be Completed by Purchaser $
Demolition Recommended Units in Buildings
Displacement of Tenants No. Temporary No. Permanent ☐ None

SECTION FOUR - COMPUTATION OF SALES PRICE - (Use separate sheet if more than one price)

CURRENT RENTAL RATES/MONTHLY

NO. UNITS	NO. BD. ROOMS	RENT	UTILITY ALLOW.	TOTAL
24	0	$ 234		
4	0	273		
7	0	248		
24	1	360		
4	1	287		
7	1	352		
14	2	420		
14	2	445		
7	3	535		
1	2	259		
Total Residential		36,810		
Parking		920		
Commercial		—		

GROSS ANNUAL RENT ROLL 452,760.00
Rents @ 95 % $ 430,122.00

TOTAL EXPENSES ($ (PUPA)

NET INCOME $

Multiplier X (Term Yrs %)
Minimum Price (Required)
Maximum Mort.
Allowable Expenses (rehab. conversion) Debt Service $
AS-IS-PRICE

MARKET RENTS - PROJECTED TO

NO. UNITS	NO. BD. ROOMS	RENT	UTILITY ALLOW.	TOTAL	SECTION 8 FAIR MARKET RENT EXIST.	M/R	S/R	120%
24	0	$280		6,720				
4	0	300		1,200				
7	0	285		1,995				
24	1	380		9,120				
4	1	345		1,380				
7	1	365		2,555				
14	2	445		6,230				
14	2	470		6,580				
7	3	550		3,850				
1	2	259		259				
Total Residential				39,889	1290			
Parking				920				
Commercial				—				

Estimated remaining economic life 40 yrs.

GROSS ANNUAL RENT ROLL ~~489,708~~ 494,148 gcl- 11/7/82
Rents @ 95 % $ 465,223.00

TOTAL EXPENSES (532,992 $ 5,028.22 (PUPA)

NET INCOME – $ 67,699

Multiplier X (Term Yrs %)
Minimum Price (Required)
Maximum Mort.
Allowable Expenses (rehab. conversion) Debt Service $
AS-IS-PRICE

SECTION FIVE - SUBSIDY

Estimated number of section and eligible families
Subsidy to be Provided for Units % of Project or None
Type PD Set Aside Existing M & D Rehab. Sub Rehab.
Traditional Public Housing (ACC) N/A
Other (Explain)

Term of HAP Contract Years Contract Authority $ ☐ Metro ☐ Nonmetro

- CONCLU

PRICE TO BE: ☐ Stated ☐ Unstated FINANCING: ☐ PMM ☐ IM ☑ Cash ☐ Other
TYPE OF SALE: ☑ Rental ☐ Coop ☐ Condo ☐ Other
METHOD OF SALE: ☑ High Bidding ☐ Purchase Proposals ☐ Negotiated ☐ Other
SPECIAL PROVISIONS: ☐ Sales Commission % ☐ Deferments $ Months
☐ Initial funds for replacement reserve $ ☐ Other

SECTION SEVEN - PROJECT DESCRIPTION

CONSTRUCTION		
Foundation	Concrete	
Exterior walls	Brick veneer/Steel beams	
Floors - construction	Concrete	
finish	Parquet	
Roofing	Built-up	
Heating fuel	Oil	☐ Wall furnace
system		☐ Individual ☑ Central
Air conditioning		☐ Individual ☑ Central
		☐ Sleeves only
Domestic hot water		
Oil fuel		☐ Individual ☑ Central
Windows		☑ Screens ☐ Storms
Metered utilities		

UTILITIES	
Public water sup.	X
Community sw.	
Private well	
Gas main	X
Electric service	X
Sanitary sewer	(X?) ?
Septic tank	
Cesspool	
Storm sewer	X
Drainage ditch	
Bottle gas	

PAVING	
STREETS	
Concrete	
Macadam	X
PARKING LOT	
Concrete	
Macadam	X
PARKING	
Garage	X
Carport	
Lot	
CURB	
Concrete	X
Macadam	
SIDEWALK	
Concrete	X
Macadam	

OWNER FURNISHES/PARTS FOR			
Cold water	X	Range Gas	X
Hot water	X	Refrigerator	X
Electricity	X	Exhaust fan	
Gas	X	Kitchen	X
Refuse removal	X	Bath	X
Metered laundry facilities	X	Venetian blinds	X
Customary maint.	X	Shades	
Air conditioning	X	Drapes	
Heat	X	Carpets	
Master TV Ant.	X	Disposal	
Parking		Dishwasher	X
Elevator (2)	X	Swimming pool	X
Playground		Storage	X

TENANT FURNISHES/PART FOR			
Electricity		Gas	
Cold water		Heat	
Hot water		Appliances	
Air conditioning		Parking pd. by tenants	

UNUSUAL SITE FEATURES

SECTION EIGHT - ESTIMATE OF ANNUAL EXPENSES (Projected)

	ADMINISTRATIVE-		
1.	Advertising	$ 300	
2.	Management	19,615	
3.	Other	4,500	
4.	TOTAL ADMINISTRATIVE		$ 24,415
	OPERATING-		
5.	Elevator Main. Exp.	$ 4,800	
6.	Fuel (heating & domestic hot water)	100,000	
7.	Lighting & Misc. Power	91,000	
8.	Water	4,560	
9.	Gas	12,700	
10.	Garb. & Trash Removal		
11.	Payroll	49,400	
12.	Other	74,888	
13.	TOTAL OPERATING		$ 337,318
	MAINTENANCE-		
14.	Decorating	$ 9,000	
15.	Repairs	21,200	
16.	Exterminating	2,000	
17.	Insurance	2,200	
18.	Ground Expense	1,060	
19.	Other		
20.	TOTAL MAINTENANCE		$ 35,460
21.	Replacement Reserve		$ 17,105
22.	TOTAL OPERATING EXPENSE		$ 411,323
	10% Trend		39,422
			450,745
	TAXES-		
23.	Real Estate	$ 75,825	
24.	Personal Prop.		
25.	Empl. Payroll Tax	6,422	
26.	Other		
27.	Other		
28.	TOTAL TAXES		$ 82,247
29.	TOTAL EXPENSES (Attach Worksheet) (Insert in Section Four)		$ 532,997

SECTION NINE - REMARKS

SECTION TEN - LAND

NOTE: Complete this Section only if project is to be sold based on land value.

LAND: ______ sq. ft. (______ acres) @ $ ______ per sq. ft = $ ______

per ______ : 2264 dated ______

Attach Section J & 9, 10, 11 of Form FHA 2264

SECTION ELEVEN - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE:

☑ An Environmental Assessment of the proposed disposition is not required.

☐ An Environmental Assessment was completed and is attached as a Special Clearance SCO-2/3

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement.

SECTION TWELVE - SIGNATURES

Elizabeth Jablonski	10-20-81	John L Evans	10/22/81
Realty Specialist	Date	Chief Property Officer	Date
Deputy Director/Management	Date	Deputy Director/Management	Date
		Housing Director	Date

If disposition includes insured mortgage financing, the signature of the Deputy Director/Development or the Director of Housing constitutes approval of a commitment to insure a mortgage under Section ______ of the National Housing Act pursuant to Section 223(a) of the Act.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

INSTRUCTIONS

1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check.
   A = Acceptable
   M = Maintenance to be done within 1 year.
   I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.

TCD = Target Completion Date.

Page 1 of pages

DATE OF INSPECTION 5-15-81

PROJECT NUMBER 031- 00207

SECTION 207

PROJECT STATUS (Check applicable box) ☐ Insured ☐ HUD-Held ☑ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☑ Routine ☐ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
Mt. Prospect Towers
380 Mt. Prospect Avenue
Newark, New Jersey 07102

MANAGEMENT AGENT NAME
Benskin Agency
Philip Cantor

RESIDENT MANAGER NAME
Eleanor Pacciarello

DATE HIRED / /

TIME SPENT

PREPARATION	TRAVEL
Hours	Hours
INSPECTION	**REPORT PREPARATION**
Hours	Hours

TOTAL TIME Hours

TYPE	TOTAL	NO. INSPECTED
Buildings	1	1
Total Units	106	10
Vacancies	—	—
Sec. 8 Units	—	—

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations	✓				
2. Roofs, flashing, vents	✓				
3. Gutters, downspouts, splashblocks	✓				
4. Drives, parking lots, paving, curbs	✓				
5. Walks, steps, guardrails	✓				
6. Fences, walls, gates	✓				
7. Porches, balconies, fire escapes	✓				
8. Doors, windows, screens	✓				
9. Garage and carports	✓				
10. Lawns and plantings	✓				
11. Sprinkler and drainage system	✓				
12. Exterior lighting	✓				
13. Exterior painting	✓				
14. Underground gas, water, sewage	✓				
15. Security systems	✓				
16.					
17. TOTAL EXTERIOR (Add items 1 thru 16)				—	—

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation	✓				
19. Caulking and weatherstripping	✓				
20. Storm doors and windows	✓				
21. Water saver devices	✓				
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				—	—

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles	✓				
25. Stairs, hallways, community spaces	✓				
26. Cabinets, doors, closets, hardware	✓				
27. Painting	✓				
28. Curtains and shades	✓				
29. Refrigerators and ranges	✓				
30. Garbage disposal & exhaust fans	✓				
31. Compactors & incinerators	✓				
32. Electrical fixtures and systems	✓				
33. Plumbing fixtures and systems	✓				
34. Heating and air conditioning	✓				
35. Hot water system, boiler room	✓				
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)					

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment	✓				
39. Laundry rooms, office	✓				
40. Storage, utility buildings	✓				
41. Elevators	✓				
42. Project signs	✓				
43. Swimming pools	✓				
44. Exterminating	✓				
45. Fire and Safety Hazards		✓		30,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				30,000	

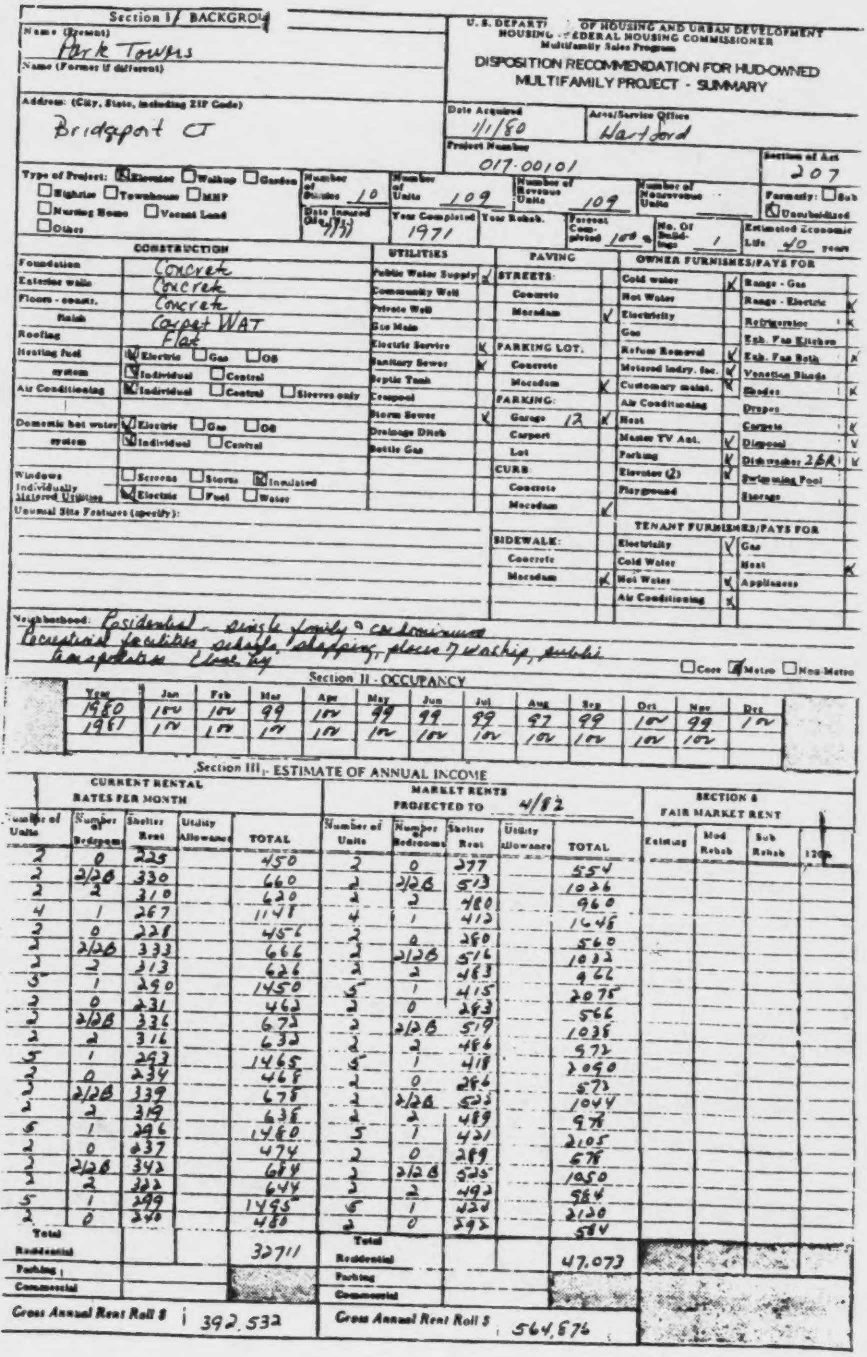
48. TOTAL COST (Add items 17, 23, 37 and 47) .... $

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below) ☐ Superior ☑ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME Elizabeth Jablonski	NAME John [illegible]
TITLE Realty Specialist	TITLE Chief, P.D. Br
DATE 10-20-81	DATE 10/22/81

ITEM NO.	Describe required corrections on M and I Items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
45	Install electric smoke alarms to comply with State Code.	

* Use this column, as needed, to estimate cost of completing required repairs.



U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
Multifamily Sales Program

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT - SUMMARY

Section I - BACKGROUND

Name (Present): Park Towers
Name (Former if different):
Address: (City, State, including ZIP Code): Bridgeport CT
Date Acquired: 1/1/80
Area/Service Office: Hartford
Project Number: 017-00101
Section of Act: 207

Type of Project: ☒ Elevator ☐ Walkup ☐ Garden ☐ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other

Number of Stories: 10
Number of Units: 109
Number of Revenue Units: 109
Number of Nonrevenue Units:
Formerly: ☐ Sub ☒ Unsubsidized
Date Insured (Mo./Yr.): 7/71
Year Completed: 1971
Year Rehab.:
Percent Completed: 100 %
No. Of Buildings: 1
Estimated Economic Life: 40 years

CONSTRUCTION	
Foundation	Concrete
Exterior walls	Concrete
Floors - constr.	Concrete
finish	Carpet WAT
Roofing	Flat
Heating fuel	☒ Electric ☐ Gas ☐ Oil
system	☒ Individual ☐ Central
Air Conditioning	☒ Individual ☐ Central ☐ Sleeves only
Domestic hot water	☒ Electric ☐ Gas ☐ Oil
system	☒ Individual ☐ Central
Windows	☐ Screens ☐ Storm ☒ Insulated
Individually Metered Utilities	☒ Electric ☐ Fuel ☐ Water

UTILITIES	
Public Water Supply	✓
Community Well	
Private Well	
Gas Main	
Electric Service	✓
Sanitary Sewer	✓
Septic Tank	
Cesspool	
Storm Sewer	✓
Drainage Ditch	
Bottle Gas	

PAVING	
STREETS:	
Concrete	
Macadam	✓
PARKING LOT:	
Concrete	
Macadam	✓
PARKING:	
Garage 12	✓
Carport	
Lot	
CURB:	
Concrete	
Macadam	✓
SIDEWALK:	
Concrete	
Macadam	✓

OWNER FURNISHES/PAYS FOR			
Cold water	✓	Range - Gas	
Hot Water		Range - Electric	✓
Electricity		Refrigerator	✓
Gas		Exh. Fan Kitchen	
Refuse Removal	✓	Exh. Fan Bath	✓
Metered laundry. fac.	✓	Venetian Blinds	
Customary maint.	✓	Shades	✓
Air Conditioning		Drapes	
Heat		Carpets	✓
Master TV Ant.	✓	Disposal	✓
Parking	✓	Dishwasher 2BR	✓
Elevator (2)	✓	Swimming Pool	
Playground		Storage	

TENANT FURNISHES/PAYS FOR			
Electricity	✓	Gas	
Cold Water		Heat	✓
Hot Water	✓	Appliances	
Air Conditioning	✓		

Unusual Site Features (specify):

Neighborhood: Residential - single family & condominiums. Recreational facilities schools, shopping, places of worship, public transportation close by

☐ Core ☒ Metro ☐ Non-Metro

Section II - OCCUPANCY

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1980	100	100	99	100	99	99	99	97	99	100	99	100
1981	100	100	100	100	100	100	100	100	100	100	100	

Section III - ESTIMATE OF ANNUAL INCOME

CURRENT RENTAL RATES PER MONTH					MARKET RENTS PROJECTED TO 4/82					SECTION 8 FAIR MARKET RENT			
Number of Units	Number of Bedrooms	Shelter Rent	Utility Allowance	TOTAL	Number of Units	Number of Bedrooms	Shelter Rent	Utility Allowance	TOTAL	Existing	Mod Rehab	Sub Rehab	120%
2	0	225		450	2	0	277		554				
2	2/2B	330		660	2	2/2B	513		1026				
2	2	310		620	2	2	480		960				
4	1	267		1148	4	1	412		1648				
2	0	228		456	2	0	280		560				
2	2/2B	333		666	2	2/2B	516		1032				
2	2	313		626	2	2	483		966				
5	1	290		1450	5	1	415		2075				
2	0	231		462	2	0	283		566				
2	2/2B	336		672	2	2/2B	519		1038				
2	2	316		632	2	2	486		972				
5	1	293		1465	5	1	418		2090				
2	0	234		468	2	0	286		572				
2	2/2B	339		678	2	2/2B	522		1044				
2	2	319		638	2	2	489		978				
5	1	296		1480	5	1	421		2105				
2	0	237		474	2	0	289		578				
2	2/2B	342		684	2	2/2B	525		1050				
2	2	322		644	2	2	492		984				
5	1	299		1495	5	1	424		2120				
2	0	240		480	2	0	292		584				
Total Residential				32711	Total Residential				47,073				
Parking					Parking								
Commercial					Commercial								
Gross Annual Rent Roll $				392,532	Gross Annual Rent Roll $				564,876				

Section V . ESTIMATE OF ANNUA[illegible]PENSES

ADMINISTRATIVE EXPENSES:		
1. Advertising	$ 50	
2. Office Expense	2700	
3. Management Fees	22044	
4. Project Employee Costs	20280	
5. Legal	930	
6. Telephone	600	
7. Miscellaneous Administrative	100	
8. TOTAL ADMINISTRATIVE		$ 46,704
OPERATING EXPENSES:		
9. Elevator	$ 4251	
10. Janitor and Cleaning		
11. Vehicle		
12. Extermination	460	
13. Garbage Removal	1350	
14. Security		
15. Grounds	3495	
16. Routine Repairs	9810	
17. Decorating	9265	
18. Miscellaneous Maintenance	900	
19. TOTAL OPERATING		$ 29,321
20. Replacement Reserve (PMM or DI only))		$ 46,610
UTILITIES EXPENSES:		
21. Heating Fuel	$	
22. Electricity	28340	
23. Water	5184	
24. Gas		
25. TOTAL UTILITIES		$ 33,524
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$ 99350	
27. Personal Property Taxes		
28. Payroll Taxes	3052	
29. Insurance/Bond Premiums	15300	
30. TOTAL TAXES/INSURANCE		$ 117,702
31. TOTAL EXPENSES (Attach worksheets)		273,861 $ ~~227,251~~

Section V . C[illegible]PUTATION OF SALES PRICE (If more than one pri...)

1. Gross Annual Rent Roll	$ 564,876
2. Occupancy (x)	93 %
3. Effective Rent Roll	$ 525,335
4. Total Expenses (minus)	273,861 $ ~~[illegible]~~
5. Net Income	251,474 $ ~~298,084~~
6. Multiplier 11% (x)	8.24 ~~5.79~~
7. Minimum Sales Price (Required)	2,072,000 $ ~~1,726,000~~
8. Maximum Mortgage Amount	$ 1,657,600
TO BE DEDUCTED FROM DOWN PAYMENT. 9. Allowable Deductions (minus)	108,000 $ ~~107,105~~
10. AS IS Sales Price 2,072,000 (Repairs Needed (7-9))	~~1,549,600~~ $ ~~1,617,895~~

Section VI- LAND (Complete this Section only if project is to be sold based on land value):

Land Area ________ sq. ft. (____) acres $ ________ per sq. ft./acre

Land Value = $ ____________

(Attach Sections J and 9, 10 and 11 of Form FHA-2264/HUD-92264.)

Section VII - CONDITIONS OF SALE

SALES PRICE $ 2,072,000 ~~1,617,895~~ Mortgage $ 1,657,600 Term ____ Years Interest Rate ____ percent

PRICE TO BE: ☒ Stated ☐ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Public Housing (ACC) ☐ Other ________

☐ Demolition ______ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☒ Bid ☐ Proposals ☐ Negotiated ☐ Other ________

FINANCING: ☐ PMM ☐ IM ☑ Cash ☐ Other ________

ADVERTISING: ☒ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by (date): ________

☒ To be completed by Purchaser $ 107,105 within 3 months of sales closing.

DISPLACEMENT: ☐ Temporary ________ ☐ Permanent ________

SUBSIDY: Estimated number of Section 8 eligible families 23 . Subsidy to be provided for 23 units, 21 percent of project.

☒ PD Set Aside ☐ Existing ☐ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing (ACC)

☒ Other (explain below). Term of HAP Contract 15 years. Gross Annual Contract Authority $ 99,000

SPECIAL PROVISIONS: ☐ Sales Commission ______ percent. ☐ Deferments $ ________ for ____ months (PMM or DI only).

☐ Initial funds for replacement reserve $ ________

☐ Other ________

Section X - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE:

☒ An Environmental Assessment of the proposed disposition is not required.

☐ An Environmental Assessment was completed and is attached as a Special Clearance ECO-2/3. (Note significant findings below.)

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. (Note significant findings below.)

Section XI - REMARKS AND SIGNATURES

Remarks: Certificates of Family Participation for 23 eligible families will be required from the PD set aside.

Sec 8 = 5 effi @ $283; 10-1bdrm @ $349; 8-2bdrm @ $415 = $99,000/yr

Sec 8 is at 120% of Exist. FMRs.

________ (Realty Specialist) 1/8/82 (Date) ________ (Chief Property Officer) 1/12/82 (Date)

________ (Deputy Director/Development) 1-12-82 (Date) ________ (Deputy Director/Management) 1-12-82 (Date)

B M Cameron for (Housing Director) 1-12-82 (Date)

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ____________ of the National Housing Act pursuant to section 223(a) of the National Housing Act.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER 017-00101
SECTION 207

PROJECT STATUS *(Check applicable box)*
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT *(Check applicable boxes)*
a. ☐ Initial ☐ Routine ☒ Special
b. ☒ Maintenance ☒ Upgrading ☒ Protection

PROJECT NAME AND ADDRESS
Park Towers Apartments
120 Huntington Tpke.
Bridgeport, CT

INSTRUCTIONS
1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
TCD = Target Completion Date.

MANAGEMENT AGENT NAME Mitchell Realty, Inc.

RESIDENT MANAGER NAME James Loyd

DATE HIRED / /

Page 1 of 1 pages

DATE OF INSPECTION

TIME SPENT

PREPARATION	TRAVEL
Hours	Hours
INSPECTION	**REPORT PREPARATION**
Hours	Hours

TOTAL TIME Hours

TYPE	TOTAL	NO. INSPECTED
Buildings		
Total Units		
Vacancies		
Sec. 8 Units		

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations					
2. Roofs, flashing, vents	x			1,475	
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs					
5. Walks, steps, guardrails					
6. Fences, walls, gates	x	x		20,000	6.30.82
7. Porches, balconies, fire escapes					
8. Doors, windows, screens					
9. Garage and carports					
10. Lawns and plantings	x			3,500	
11. Sprinkler and drainage system					
12. Exterior lighting	x			5,210	
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems		x		20,509	6.30.82
16.					
17. TOTAL EXTERIOR *(Add items 1 thru 16)*				50,685	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation	x			92,485	
19. Caulking and weatherstripping	x			2,875	
20. Storm doors and windows		x		40,000	12.31.81
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY *(Add items 18 thru 22)*				135,360	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles		x		50,550	3.31.82
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware					
27. Painting		x		56,565	6.30.82
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning					
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR *(Add items 24 thru 36)*				107,115	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment					-
39. Laundry rooms, office	x			1,200	
40. Storage, utility buildings					
41. Elevators					
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards	x			850	
46.					
47. TOTAL MISC. *(Add items 38 thru 46)*				2,050	

48. TOTAL COST *(Add items 17, 23, 37 and 47)* .... $ 295,210

49. EVALUATION OF MAINTENANCE OPERATION *(Check one and elaborate in Comments Section below)*
☒ Superior ☐ Below Average
☐ Satisfactory ☐ Unsatisfactory

INSPECTION MADE BY
NAME
TITLE Realty Specialist
DATE 9/3/81

APPROVED BY
NAME
TITLE
DATE

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
6	Retaining wall to be installed along side of bldg. Once Architect is hired, plans will be drawn and item put out for bid.	
15	Security cameras to be installed in lobby and rear of bldg to delete cost of security guards. Once specs received from proj mgr, will be put out for bid	
20	Storm sashes have been under Ba processing for over 1 yr. Cancelled on 9/18/81. Contract will now be put out to formal bid.	
24	Approximately 70 carpets to be replaced. When specs recd from proj mgr, will be put out to bid.	
27	Contract has been awarded - a minimum of 50 apts will be painted.	

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES:		
1. Advertising	$	
2. Office Expense		
3. Management Fees		
4. Project Employee Costs		
5. Legal and Accounting		
6. Telephone		
7. Miscellaneous Administrative		
8. TOTAL ADMINISTRATIVE		$ 46,704
OPERATING EXPENSES:		
9. Elevator	$	
10. Janitor and Cleaning		
11. Vehicle		
12. Extermination		
13. Garbage Removal		
14. Security		
15. Grounds		
16. Routine Repairs		
17. Decorating		
18. Miscellaneous Operating		
19. TOTAL OPERATING		$ 29,321
20. Replacement Reserve		$ 46,610
UTILITIES EXPENSES:		
21. Heating Fuel	$	
22. Electricity		
23. Water		
24. Gas		
25. TOTAL UTILITIES		$ 33,524
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$	
27. Personal Property Taxes		
28. Payroll Taxes		
29. Insurance/Bond Premiums		
30. Other		
31. TOTAL TAXES/INSURANCE		$ 117,702
32. TOTAL EXPENSES *(Attach worksheets)*		$ 273,861

SECTION V - COMPUTATION OF SALES PRICE
(Use separate sheet if more than one price)

1. Gross Annual Rent Roll	$ 564,876
2. Occupancy (x)	93 %
3. Effective Rent Roll	$ 525,335
4. Total Expenses (–)	$ 273,861
5. Net Income	$ 251,474
6. Multiplier 11% (x)	8.24
7. Minimum Sales Price *(Repaired)*	$ 2,072,000
8. Maximum Mortgage 80%	$ 1,657,600
9. Allowable Deductions (–)	$ 108,000
10. AS IS Sales Price *(Repairs Needed)*	$ 1,964,000

SECTION VI - LAND VALUE *(Complete this Section only if project is to be sold based on land value.*

Land Area ________ sq. ft. ______ acres $ ________ per sq. ft./acres

Land Value = $ ______________________
(Attach Section J, lines 9, 10 and 11 of Form FHA-2264/HUD-92264.)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ 2,072,000 Mortgage $ 1,657,600 Term 40 Years. Interest Rate 11 percent.

PRICE TO BE: ☒ Stated ☐ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________
☐ Demolition ________ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☒ Bid ☐ Proposals ☐ Negotiated ☐ Other ________

FINANCING: ☒ PMM ☐ IM ☐ Cash ☐ Other ________

ADVERTISING: ☒ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by *(date)*: ________. ☐ None
☒ To be completed by Purchaser $ 108,000 within 6 months of sales closing.

DISPLACEMENT: ☒ None ☐ Temporary - No. of families ________. ☐ Permanent - No. of families ________.

SUBSIDY: *
Estimated number of Section 8 eligible families 23. Subsidy to be provided for 23 units, 21 percent of project.
☒ PD Set Aside ☒ Existing ☐ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing
☒ Other *(explain below).* Term of HAP Contract 15 years. Gross Annual Contract Authority $ 99,000

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ___ months ☐ Interest ☐ Principal
☐ Initial funds for replacement reserve $ ________ Funded by: ☐ HUD ☐ Purchaser
☐ Other ________

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE
☒ An Environmental assessment of the proposed disposition is not required.
☐ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*
☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation? ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS * Section 8 Existing Certificates will be issued @ 120% of FMRs.

________ Realty Specialist ________ Date ________ Chief Property Officer ________ Date

________ Deputy Director/Development ________ Date ________ Deputy Director/Management ________ Date

________ Housing Director ________ Date

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223(c) of the National Housing Act.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
MULTIFAMILY SALES PROGRAM

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT

SECTION I - BACKGROUND

Name (Present): SHERWOOD VILLAGE

Name (Former, if different):

Address (City, State, including ZIP Code):
99-11 57TH AVENUE
55-15 99TH STREET
65-15 CALLAWAY STREET
REGO PARK, NEW YORK

Date Acquired: 2/13/81

Area/Service Office: NEW YORK AREA OFFICE

Project Number: 012-30337/45

Section of Act: 213 as (207

Type of Project: ☒ Elevator ☐ Walkup ☐ Garden ☐ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other

Number of Stories: 6	Number of Units: 205		Number of Revenue Units: 203	Number of Non-revenue Units: 2	Formerly: ☐ Subsidized ☒ Unsubsidized
Date Insured (Month/Year): 11/69	Year Completed: 1962	Year Rehab'ed:	Percent Completed: 100 %	Number of Buildings: 3	Estimated Economic Life: 50 years

CONSTRUCTION

Foundation	CONCRETE
Exterior walls	BRICK
Floors-constr.	CONCRETE
- finish	HARDWOOD
Roofing	MINERAL SURFACE/GRABLE
Heating fuel	☐ Electric ☐ Gas ☒ Oil ☐
Heating system	☐ Individual ☒ Central
Air Conditioning	☐ Individual ☐ Central ☒ Sleeves only
Domestic hot water	☐ Electric ☐ Gas ☒ Oil ☐
Hot water system	☐ Individual ☒ Central
Windows	☐ Screens ☐ Storm ☐ Insulated
Individually Metered Utilities	☐ Electric ☐ Fuel ☐ Water

UTILITIES

Public Water Supply	X
Gas Main	X
Electric Service	X
Sanitary Sewer	X
Septic Tank	
Storm Sewer	

PARKING SPACES

No. of Garages	53
No. of Carports	
No. in Lots	

PAVING

STREETS	
Concrete	
Macadam	X
PARKING LOT	
Concrete	
Macadam	
CURB	
Concrete	X
Macadam	
SIDEWALK	
Concrete	X
Macadam	

OWNER FURNISHES/PAYS FOR

Cold Water	X	Range-Gas	X
Hot Water	X	Range-Electric	
Electricity	X	Refrigerator	X
Gas	X	Exh. Fan Kitchen	X
Refuse Removal		Exh. Fan Bath	X
Metered lndry. fac.	X	Venetian Blinds	
Customary maint.	X	Shades	
Air Conditioning		Drapes	
Heat	X	Carpets	
Master TV antenna		Disposal	
Parking		Dishwasher	
Elevator (3	X	Swimming Pool	
Playground		Storage	

TENANT FURNISHES/PAYS FOR

Electricity		Gas	
Cold Water		Heat	
Hot Water		Appliances	
Air Conditioning			

Repair Program:

Windows, roofs, fences, sidewalks, and damaged apartments, painting, elevators, appliances, boilers plumbing repairs

Local Market Conditions

Good - project is close to transportation recreation houses of worship, shopping, school transportation entertainment and employment. Area is close to major employment & recreation and cultural centers, yet isolated enough to not be too conjusted. Forest Hills-Rego Park area is considered one of the more desireable sections of New York City in which to live.

☐ Core ☐ Metro ☐ Non-Metro

SECTION II - OCCUPANCY

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1981					91	91	91	91	95	97	97	97
1982	100	100										

SECTION III - ESTIMATE OF ANNUAL INCOME

CURRENT AUTHORIZED RENTAL RATES PER MONTH					MARKET COMPARABLE RENTS PROJECTED TO 4/1/83					SECTION 8		
Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Gross Rent	130% FMR	Total Gross Rents
		$	$	$			$	$	$	$	$	$
24	0	330	7920	N/A	24	0	403	9,672	N/A	403	403	9,672
60	1	428	25,680		60	1	491	29,460		491	491	29,460
100	2	480	48,000		100	2	586	58,600		586	586	58,600
19	3	570	10,830		19	3	678	12,882		678	678	12,882
		Total Residential	$ 92,430				Total Residential	$110,614		Total Monthly $ 110,614		

Parking $ 1,855	Parking $ 1,855	
Commercial sq. ft. @ $ 780	Commercial sq. ft. @ $ 780	Total Annual $ 1,327,368
Gross Monthly Rent Roll $ 95,065	Gross Monthly Rent Roll $ 113,249	☐ Existing (PD) ☒ Mod. Rehab. (PD)
Gross Annual Rent Roll $ 1,140,780	Gross Annual Rent Roll $ 1,358,988	☐ Sub. Rehab. (PD) ☐ Other

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PROPERTY DISPOSITION PROGRAM

REPORT OF PHYSICAL CONDITION AND RECOMMENDATIONS FOR EXPENDITURES

PROJECT NAME: SHERWOOD VILLAGE

PROJECT NO: 012-30337/45

ADDRESS: 99-17 57th Avenue, 55-15 99th Street & 60-15 Calloway

EXPENDITURES RECOMMENDED FOR:

☐ Protection and Maintenance
☒ Upgrading

	ITEM(S)	REPAIRS RECOMMENDED	$ AMOUNT
EXTERIOR	1. Foundation and Retaining Walls		$
	2. Exterior Walls		
	3. Caulking and Weatherstrip	Windows, Doors & Baths	25,000
	4. Roofing, Guttering and Downspouts	New roofs, cap flashings etc.	300,000
	5. Trim and Millwork		
	6. Windows, Screens and Storm Doors	Storm windows & Repair of ext. windows	100,000
	7. Porches, Steps and Fire Escapes		
	8. Balconies and Terraces		
	9. Awnings and Canopies		
	10. Fences and Gates	Fences & Gates repair & replace	10,000
	11. Walks, Driveways and Parking Lots	Repair sidewalks	10,000
	12. Garages and Carports		
	13. Storage, Utility and Recreation Bldgs.		
	14. Landscaping and Exterior Lighting		
	15. Sewer and Drainage		
INTERIOR	16. Entrance Lobby	Redesign	20,000
	17. Basement		
	18. Floors	6 apts damages by sewer back-up	20,000
	19. Carpeting		
	20. Stairs and Hallways		
	21. Base, Trim and Millwork		
	22. Cabinets, Closets, Doors and Hardware	Sliding closet doors	20,000
	23. Walls and Decorating		
	24. Glazing, Shades and Blinds		
	25. Ranges	New	60,000
	26. Refrigerators	New	80,000
	27. Wiring and Light Fixtures		
	28. Plumbing and Plumbing Fixtures	Kitchen sinks, bathroom wash basin & vanities	80,000
	29. Garbage Disposals		
	30. Exhaust Fans	Roof fans · Overhaul & repair	3,000
	31. Heating	Overhaul boilers, burners, pumps & motors	30,000
	32. Air Conditioning		
	33. Hot Water System		
	34. Paint	Paint all apartments, public spaces, firescapes	180,000
MISCELLANEOUS	35. Incinerators and Trash Compactors	Overhaul & Upgrade 3 elevators	40,000
	36. Elevators		
	37. Laundry Rooms		
	38. TV Antenna System		
	39. Swimming Pools		
	40. Project Signs		
	41. Playgrounds and Equipment	Remove playground equipment 7 landscape	6,000
	42.		
	43. Mail box	Vandal Resistance Mail BOX	20,000
	44.		
	45.	Subtotal	1,003,000

(USE REVERSE IF ADDITIONAL SPACE IS REQUIRED)

Add 20% for Gen Req. overhead & profit x1.2 TOTAL $,236,000

PREPARED BY:		REVIEWED AND ACCEPTED BY:	
2/10/81	L.H. Sausa Gen. Engr.	2/10/81	Robert E. Fortini
(Date)	(Signature and Title)	(Date)	(Signature and Title)

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES:		
1. Advertising	$ 1,200	
2. Office Expense		
3. Management Fees	56,071	
4. Project Employee Costs		
5. Legal and Accounting		
6. Telephone		
7. Miscellaneous Administrative		
8. TOTAL ADMINISTRATIVE		$ 57,271
OPERATING EXPENSES:		
9. Elevator	$ 4,000	
10. Janitor and Cleaning	143,000	
11. Vehicle		
12. Extermination	6,000	
13. Garbage Removal		
14. Security	27,000	
15. Grounds		
16. Routine Repairs	26,650	
17. Decorating	25,000	
18. Miscellaneous Operating/supplies	6,200	
19. TOTAL OPERATING		$237,850
20. Replacement Reserve		$ 49,680
UTILITIES EXPENSES:		
21. Heating Fuel	$190,000	
22. Electricity	147,000	
23. Water	12,500	
24. Gas	20,000	
25. TOTAL UTILITIES		$369,500
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$190,188	
27. Personal Property Taxes		
28. Payroll Taxes	34,300	
29. Insurance/Bond Premiums	19,000	
30. Other		
31. TOTAL TAXES/INSURANCE		$243,488
32. TOTAL EXPENSES *(Attach worksheets)*		$957,789

SECTION V - COMPUTATION OF SALES PRICE
(Use separate sheet if more than one price)

1. Gross Annual Rent Roll	$ 1,358,988
2. Occupancy (x)	95 %
3. Effective Rent Roll	$ 1,291,039
4. Total Expenses (–)	$ 957,789
5. Net Income	$ 333,250
6. Multiplier (x)	7.78
7. Minimum Sales Price *(Repaired)*	$ 2,592,700
8. Maximum Mortgage	$ 2,074,160
9. Allowable Deductions (–) 9 MONTH OPERATING DEFICIT REPAIRS	$ 526,500 1,236,000
10. AS IS Sales Price *(Repairs Needed)*	$ 830,200

SECTION VI - LAND VALUE *(Complete this Section only if project is to be sold based on land value.)*

Land Area ________ sq. ft. ______ acres $ ________ per sq. ft./acre

Land Value = $ ____________
(Attach Section J, lines 9, 10 and 11 of Form FHA-2264/HUD-92264.)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ TO BE NEGOTIATED Mortgage $ 830,200 Term 40 Years. Interest Rate 12 percent.

PRICE TO BE: ☐ Stated ☒ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________

☐ Demolition ________ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☐ Bid ☐ Proposals ☒ Negotiated ☐ Other ________

FINANCING: ☒ PMM ☐ IM ☐ Cash ☐ Other ________

ADVERTISING: ☐ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by (date): ________. ☐ None

☒ To be completed by Purchaser $ 1,236,000 within 9 months of sales closing.

DISPLACEMENT: ☐ None ☐ Temporary - No. of families ________. ☐ Permanent - No. of families ________.

SUBSIDY: Estimated number of Section 8 eligible families 203. Subsidy to be provided for 203 units, 100 percent of project.

☒ PD Set Aside ☐ Existing ☒ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing

☐ Other (explain below). Term of HAP Contract 15 years. Gross Annual Contract Authority $ 1,327,000

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ___ months ☐ Interest ☐ Principal

☐ Initial funds for replacement reserve $ ________ Funded by: ☐ HUD ☐ Purchaser

☐ Other ________

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE

☐ An Environmental assessment of the proposed disposition is not required.

☒ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS ________

________ Realty Specialist ________ Date

Robert E. Porter Chief Property Officer 2-17-82 Date

________ Deputy Director/Development ________ Date

________ Deputy Director/Management 2/17/82 Date

________ Housing Director ________ Date

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223(c) of the National Housing Act.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER: 031-55017

SECTION: 221 d 3

PROJECT STATUS (Check applicable box)
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
GREGORY PARK III
135 MONTGOMERY STREET
JERSEY CITY, N. J.

INSTRUCTIONS

1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check.
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
TCD = Target Completion Date.

Page 1 of pages

DATE OF INSPECTION: 1-2-82

TIME SPENT	
PREPARATION	TRAVEL
8 Hours	1 Hours
INSPECTION	REPORT PREPARATION
16 Hours	5 Hours

TOTAL TIME 30 Hours

MANAGEMENT AGENT NAME: THE BRUSKIN Agency

RESIDENT MANAGER NAME: MARION MILLER

DATE HIRED / /

TYPE	TOTAL	NO. INSPECTED
Buildings	1	1
Total Units	200	45
Vacancies	0	0
Sec. 8 Units	148	34

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations			X	775,000	
2. Roofs, flashing, vents					
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs		X		445	
5. Walks, steps, guardrails					
6. Fences, walls, gates		X		4,440	
7. Porches, balconies, fire escapes					
8. Doors, windows, screens					
9. Garage and carports					
10. Lawns and plantings		X		392	
11. Sprinkler and drainage system					
12. Exterior lighting					
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems					
16.					
17. TOTAL EXTERIOR (Add items 1 thru 16)				780,277	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping					
20. Storm doors and windows		X		340,000	
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				340,000	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles					
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware					
27. Painting (COMMON AREAS)				600	1982
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning					
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)				600	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment		X		2,243	
39. Laundry rooms, office					
40. Storage, utility buildings					
41. Elevators					
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards (AC SMOKE DETECTORS)			X	40,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				42,243	

48. TOTAL COST (Add items 17, 23, 37 and 47) .... $ 1,163,120

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☐ Below Average
☒ Satisfactory ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME: Elizabeth Jablonski	NAME:
TITLE: Realty Specialist	TITLE: Chief, R.D. Br
DATE: 1-2-82	DATE: 1-14-82

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
1	REPAIR EXTERIOR BRICK VENEER (SEE A+E REPORT).	
4	REPAIR MACADAM + CONCRETE (SEE A+E REPORT).	
6	REPAIR + PAINT fence AROUND building, Replace FRONT Low fence	
10	Replace TWO TREES REMOVE STUMPS.	
20	Replace existing windows with insulated windows.	
38	REPAIR + Replace benches AROUND building + playground AREA, Replace + REPAIR playground equipment, PATCH ASPHALT holes IN playground.	
45	INSTALL AC POWERED SMOKE DETECTORS	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
MULTIFAMILY SALES PROGRAM

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT

SECTION I - BACKGR ND

Name (Present): Gregory Park III

Name (Former, If different):

Address (City, State, including ZIP Code):
135 Montgomery Street
Jersey City, New Jersey 07302

Date Acquired: 5-11-78

Area/Service Office: Newark Area Office

Project Number: 031-55017

Section of Act: 221d3

Type of Project: ☒ Elevator ☐ Walkup ☐ Garden ☒ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other

Number of Stories: 21	Number of Units: 200	Number of Revenue Units: 200	Number of Non-revenue Units:	Formerly: ☒ Subsidized ☐ Unsubsidized
Date Insured (Month/Year):	Year Completed: 1963	Year Rehab'ed:	Percent Completed: 100 %	Number of Buildings: 1

Estimated Economic Life: 40 years

CONSTRUCTION	
Foundation	Concrete
Exterior walls	Brick
Floors-constr.	Concrete
- finish	Vinyl
Roofing	Built Up
Heating fuel	☐ Electric ☒ Gas ☐ Oil ☐
Heating system	☐ Individual ☒ Central
Air Conditioning	☐ Individual ☒ Central ☐ Sleeves only
Domestic hot water	☐ Electric ☒ Gas ☐ Oil ☐
Hot water system	☐ Individual ☒ Central
Windows	☐ Screens ☐ Storm ☐ Insulated
Individually Metered Utilities	☐ Electric ☐ Fuel ☐ Water

UTILITIES	
Public Water Supply	☒
Gas Main	☒
Electric Service	☒
Sanitary Sewer	☒
Septic Tank	☐
Storm Sewer	☒

PARKING SPACES	
No. of Garages	
No. of Carports	
No. in Lots	100

PAVING	
STREETS	
Concrete	☐
Macadam	☒
PARKING LOT	
Concrete	☐
Macadam	☒
CURB	
Concrete	☒
Macadam	☐
SIDEWALK	
Concrete	☒
Macadam	☐

OWNER FURNISHES/PAYS FOR			
Cold Water	☒	Range-Gas	☒
Hot Water	☒	Range-Electric	☐
Electricity	☒	Refrigerator	☒
Gas	☒	Exh. Fan Kitchen	☐
Refuse Removal	☐	Exh. Fan Bath	☐
Metered lndry. fac.	☒	Venetian Blinds	☐
Customary maint.	☒	Shades	☒
Air Conditioning	☒	Drapes	☐
Heat	☒	Carpets	☐
Master TV antenna	☐	Disposal	☐
Parking	☐	Dishwasher	☐
Elevator (2)	☒	Swimming Pool	☐
Playground	☐	Storage	☐

TENANT FURNISHES/PAYS FOR			
Electricity	☐	Gas	☐
Cold Water	☐	Heat	☐
Hot Water	☐	Appliances	☐
Air Conditioning	☐		

Repair Program: Exterior brick facade repairs; Masonry exterior walks, ramps, curbs; Fencing; Replace existing windows; Repair interior apartments and common areas; Install AC powered smoke detectors.

Local Market Conditions: Subject project located on the Hudson River. Area is a mixture of vacant lots and highrise rental complexes. Across the street is Gregory Park I & II which are 21 story luxury complexes, with elderly and subsidized highrise housing down the block. The PATH commuter trains are within 2 blocks to the east and west of the project making lower Manhattan accessible within five minutes travel time. The proximity to Manhattan and renewal efforts along the River front which extends north along the Palisades, adds to the market appeal of this project.

☒ Core ☐ Metro ☐ Non-Metro

SECTION II - OCCUPANCY

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1980	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1981	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1982	100%											

SECTION III - ESTIMATE OF ANNUAL INCOME

CURRENT AUTHORIZED RENTAL RATES PER MONTH					MARKET COMPARABLE RENTS PROJECTED TO______					SECTION 8		
Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Gross Rent	120% FMR	Total Gross Rents
82	1	$ 295	$ 24,190	$ 0			$	$	$	$	$	$
38	1	305	11,590	0								
80	2	367	29,360	0								

Total Residential	$65,140	Total Residential	$
Parking	$ 2,000	Parking	$
Commercial sq. ft. @	$ -0-	Commercial sq. ft. @	$
Gross Monthly Rent Roll	$ 67,140	Gross Monthly Rent Roll	$
Gross Annual Rent Roll	$ 805,680	Gross Annual Rent Roll	$

Total Monthly $

Total Annual $

☐ Existing (PD)
☐ Mod. Rehab. (PD)
☐ Sub. Rehab. (PD)
☐ Other

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES:		
1. Advertising	$ 300	
2. Office Expense		
3. Management Fees 4%	32,227	
4. Project Employee Costs	84,500	
5. Legal and Accounting	2,500	
6. Telephone	1,000	
7. Miscellaneous Administrative	1,000	
8. TOTAL ADMINISTRATIVE		$ 121,527
OPERATING EXPENSES:		
9. Elevator	$ 4,000	
10. Janitor and Cleaning		
11. Vehicle		
12. Extermination	4,800	
13. Garbage Removal	2,000	
14. Security		
15. Grounds	1,680	
16. Routine Repairs	20,000	
17. Decorating	16,666	
18. Miscellaneous Operating	31,340	
19. TOTAL OPERATING		$ 80,486
20. Replacement Reserve		$
UTILITIES EXPENSES:		
21. Heating Fuel	$ 70,000	
22. Electricity	72,000	
23. Water	7,200	
24. Gas	24,200	
25. TOTAL UTILITIES		$ 173,200
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$ 86,412	
27. Personal Property Taxes		
28. Payroll Taxes	20,694	
29. Insurance/Bond Premiums	22,430	
30. Other		
31. TOTAL TAXES/INSURANCE		$ 129,536
32. TOTAL EXPENSES *(Attach worksheets)*		$ 504,749

SECTION V - COMPUTATION OF SALES PRICE
(Use seperate sheet if more than one price)

1. Gross Annual Rent Roll	$ 805,680
2. Occupancy (x)	93 %
3. Effective Rent Roll	$ 749,282
4. Total Expenses (–)	$ 504,749
5. Net Income	$ 244,533
Overall Cap. Rate 6. Multiplier ÷	17.747%
7. Minimum Sales Price *(Repaired)*	$ 1,378,000
8. Maximum Mortgage	$ ———
9. Allowable Deductions (–) (Repairs)	$ 1,163,120
10. AS IS Sales Price *(Repairs Needed)*	$ 215,000

SECTION VI - LAND VALUE *(Complete this Section only if project is to be sold based on land value.*

Land Area ________ sq. ft. ______ acres $ ________ per sq. ft./acres

Land Value = $ ____________________

(Attach Section J, lines 9, 10 and 11 of Form FHA-2264/HUD-92264)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ 215,000 Mortgage $ None Term ____ Years. Interest Rate ____ percent.

PRICE TO BE: ☐ Stated ☒ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________

☐ Demolition ________ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☒ Bid ☐ Proposals ☐ Negotiated ☐ Other ________

FINANCING: ☐ PMM ☐ IM ☒ Cash ☐ Other ________

ADVERTISING: ☒ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by *(date)*: ________. ☐ None

☒ To be completed by Purchaser $ 1,163,120 within 12 months of sales closing.

DISPLACEMENT: ☒ None ☐ Temporary - No. of families ______. ☐ Permanent - No. of families ________.

SUBSIDY: Estimated number of Section 8 eligible families 148. Subsidy to be provided for _____ units, _____ percent of project.

☐ PD Set Aside ☐ Existing ☐ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing

☒ Other *(explain below)*. Term of HAP Contract ______ years. Gross Annual Contract Authority $ ________

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ___ months ☐ Interest ☐ Principal

☐ Initial funds for replacement reserve $ ________ Funded by: ☐ HUD ☐ Purchaser

☒ Other Issuance of "Finders Keepers" Certificates to Eligible Tenants.

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE

☒ An Environmental assessment of the proposed disposition is not required.

☐ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation? ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS A future use restriction for rental housing for a period of 5 years is to be made a contingency of this sale

Elizabeth Jablonski — Realty Specialist — Date 1-28-82

John [illegible] — Chief Property Officer — Date 1-27-82

Deputy Director/Development — Date 2-10-82

Deputy Director/Management — Date 2/10/82

Housing Director — Date 2/10/82

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223(c) of the National Housing Act.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
MULTIFAMILY SALES PROGRAM

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT

SECTION I - BACKGROUND

Name (Present): University Towers

Name (Former, if different): Bishop Towers

Address (City, State, including ZIP Code):
100 Memorial Parkway
New Brunswick, N. J.

Date Acquired: May 1979

Area/Service Office: Newark, N. J.

Project Number: 031-30047

Section of Act: 213

Type of Project: ☒ Elevator ☐ Walkup ☐ Garden ☒ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other

Number of Stories	10/13
Number of Units	168 + 2 Comm
Number of Revenue Units	168 + 2 Comm.
Number of Non-revenue Units	None
Formerly	☐ Subsidized ☒ Unsubsidized
Date Insured (Month/Year)	
Year Completed	1959
Year Rehab'ed	
Percent Completed	100 %
Number of Buildings	One
Estimated Economic Life	40 years

CONSTRUCTION

Foundation	Masonry
Exterior walls	Masonry – Brick
Floors-constr.	Concrete
- finish	vinyl
Roofing	Built-up
Heating fuel	☐ Electric ☐ Gas ☒ Oil ☐
Heating system	☐ Individual ☒ Central
Air Conditioning	☐ Individual ☐ Central ☐ Sleeves only
Domestic hot water	☐ Electric ☐ Gas ☒ Oil ☐
Hot water system	☐ Individual ☒ Central
Windows	☐ Screens ☐ Storm ☐ Insulated
Individually Metered Utilities	☐ Electric ☐ Fuel ☐ Water

UTILITIES

Public Water Supply	X
Gas Main	X
Electric Service	X
Sanitary Sewer	X
Septic Tank	
Storm Sewer	X

PARKING SPACES

No. of Garages	
No. of Carports	
No. in Lots	160

PAVING

STREETS	Concrete	
	Macadam	X
PARKING LOT	Concrete	
	Macadam	X
CURB	Concrete	X
	Macadam	
SIDEWALK	Concrete	X
	Macadam	

OWNER FURNISHES/PAYS FOR

Cold Water	X	Range-Gas	X
Hot Water	X	Range-Electric	X
Electricity	X	Refrigerator	X
Gas	X	Exh. Fan Kitchen	X
Refuse Removal	X	Exh. Fan Bath	
Metered Indry. fac.	X	Venetian Blinds	
Customary maint.	X	Shades	
Air Conditioning		Drapes	
Heat	X	Carpets	
Master TV antenna		Disposal	
Parking	X	Dishwasher	
Elevator (4)	X	Swimming Pool	
Playground		Storage	

TENANT FURNISHES/PAYS FOR

Electricity		Gas	
Cold Water		Heat	
Hot Water		Appliances	
Air Conditioning			

Repair Program:

See Attachment III

Local Market Conditions

Project located in the city of New Brunswick, N. J. which at present is experiencing a very tight housing market with a less than 0 vacancy rate. The subject project has a one year waiting list of applicants. The area of the project is undergoing extensive renewal which impacts on the subject, i.e., Hyatt Hotel Complex, Johnson & Johnson Pharmaceutical, Rutgers University Medical School and Middlesex County General Hospital. There is the trend to more rental housing.

☐ Core ☐ Metro ☐ Non-Metro

SECTION II - OCCUPANCY

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1981	98	99	96	95	98	98	97	97	98	98	98	98
1980	98	98	98	98	99	98	98	96	96	98	99	96.4
1979					93	94	93	88	96	93	93	98

SECTION III - ESTIMATE OF ANNUAL INCOME

CURRENT AUTHORIZED RENTAL RATES PER MONTH

Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances
		$	$	$
See Attachment II				

Total Residential	$47,753
Parking	$
Commercial 1797 sq. ft. @	$ 695
Gross Monthly Rent Roll	$ 48,447
Gross Annual Rent Roll	$581,376

MARKET COMPARABLE RENTS PROJECTED TO

Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances
22	EFF	$ 287	$6314	$
63	1 BR	352	22176	
62	2BR	415	25730	
21	3BR	480	10080	

Total Residential	$64,300
Parking	$ —
Commercial 1797 sq. ft. @	$ 750
Gross Monthly Rent Roll	$ 65,050
Gross Annual Rent Roll	$ 780,600

SECTION 8

Gross Rent	120% FMR	Total Gross Rents
$	$	$

Total Monthly $

Total Annual $

☐ Existing (PD)
☐ Mod. Rehab. (PD)
☐ Sub. Rehab. (PD)
☐ Other

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES:		
1. Advertising	$ 600	
2. Office Expense	1200	
3. Management Fee	16000	
4. Project Employee Costs	11,700	
5. Legal and Accounting	800	
6. Telephone		
7. Miscellaneous Administrative	250	
8. TOTAL ADMINISTRATIVE		$ 30,550
OPERATING EXPENSES:		
9. Elevator	$ 6000	
10. Janitor and Cleaning	8000	
11. Vehicle		
12. Extermination	4080	
13. Garbage Removal	5500	
14. Security	69888	
15. Grounds	1060	
16. Routine Repairs	25000	
17. Decorating	11400	
18. Miscellaneous Operating payrol	52800	
19. TOTAL OPERATING		$ 183728
20. Replacement Reserve		$
UTILITIES EXPENSES:		
21. Heating Fuel	$ 110,000	
22. Electricity	61,200	
23. Water	6,120	
24. Gas	20,400	
25. TOTAL UTILITIES		$ 197,720
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$ 49,000	
27. Personal Property Taxes		
28. Payroll Taxes	3,600	
29. Insurance/Bond Premiums	12,118	
30. Other		
31. TOTAL TAXES/INSURANCE		$ 64,718
32. TOTAL EXPENSES *(Attach worksheets)*		$ 476,716

SECTION V - COMPUTATION OF SALES PRICE
(Use separate sheet if more than one price)

SEE ATTACHMENT #1 1. Gross Annual Rent Roll	$ 700,600
2. Occupancy (x)	93 %
3. Effective Rent Roll	$ 725,958
4. Total Expenses (–)	$ 476,716
5. Net Income	$ 249,242
See attached -Cap. Rate 6. ~~Multiplier~~ (x) Cap Rate 12% MTG	17.747% 7.78
7. Minimum Sales Price *(Repaired)*	$ 1,404,417 1,939,100.
8. Maximum Mortgage	$
9. Allowable Deductions (–) Repairs	$ 800,000
10. AS IS Sales Price *(Repairs Needed)*	$ 604,417 $ 1,139,100

SECTION VI - LAND VALUE *(Complete this Section only if project is to be sold based on land value.*

Land Area ________ sq. ft. ______ acres $ ________ per sq. ft./acres

Land Value = $ ____________________
(Attach Section J, lines 9, 10 and 11 of Form FHA-2264/HUD-92264.)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ 604,000 Mortgage $ ________ Term ____ Years. Interest Rate ____ percent.

PRICE TO BE: ☐ Stated ☒ Unstated ☒ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________
☐ Demolition ________ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☒ Bid ☐ Proposals ☐ Negotiated ☐ Other ________

FINANCING: ☐ PMM ☐ IM ☒ Cash ☐ Other ________

ADVERTISING: ☒ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by *(date)*: ________. ☐ None
☒ To be completed by Purchaser $ 800,000 within 12 months of sales closing.

DISPLACEMENT: ☒ None ☐ Temporary - No. of families ________. ☐ Permanent - No. of families ________.

SUBSIDY: Estimated number of Section 8 eligible families 78. Subsidy to be provided for ____ units, ____ percent of project.
☒ PD Set Aside ☐ Existing ☐ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing
☒ Other *(explain below)*. Term of HAP Contract ____ years. Gross Annual Contract Authority $ ________

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ___ months ☐ Interest ☐ Principal
☐ Initial funds for replacement reserve $ none Funded by: ☐ HUD ☐ Purchaser
☒ Other Section 8 finders keepers certificates to be provided all 78 Sec. 8 eligible tenant.

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE

☒ An Environmental assessment of the proposed disposition is not required.
☐ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*
☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation? ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS A future use protection for rental housing for a period of 5 years is to be made a contingency of this sale.

Realty Specialist — Date 1/20/82

John L Evans — Chief Property Officer — Date 1-27-82

for Deputy Director/Development — Date 2-10-82

Deputy Director/Management — Date 2/10/82

Housing Director — Date 2/10/82

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223(c) of the National Housing Act.

U.S. DEPA IENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
MULTIFAMILY SALES PROGRAM

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT

SECTION I - BA GROUND

Name (Present): Evergreen Manor
Name (Former, if different): Evergreen Cooperative, Inc
Address (City, State, including ZIP Code): Bridgeport CT
Date Acquired: 12/12/80
Area/Service Office: Hartford
Project Number: 017-44169
Section of Act: 236

Type of Project: ☐ Elevator ☒ Walkup ☐ Garden ☐ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other ______

Number of Stories 2	Number of Units 176	Number of Revenue Units 176	Number of Non-revenue Units	Formerly ☒ Subsidized ☐ Unsubsidized	
Date Insured (Month/Year) 1/75	Year Completed	Year Rehab'ed 1974	Percent Completed 100 %	Number of Buildings 11	Estimated Economic Life 40 years

CONSTRUCTION	
Foundation	Concrete
Exterior walls	Brick
Floors-constr.	Wood
- finish	VAT + HW
Roofing	Asphalt Shingle
Heating fuel	☐ Electric ☐ Gas ☒ Oil ☐
Heating system	☐ Individual ☒ Central
Air Conditioning	☐ Individual ☐ Central ☐ Sleeves only
Domestic hot water	☐ Electric ☐ Gas ☒ Oil ☐
Hot water system	☐ Individual ☒ Central
Windows	☒ Screens ☐ Storm ☒ Insulated
Individually Metered Utilities	☒ Electric ☐ Fuel ☐ Water

UTILITIES	
Public Water Supply	✓
Gas Main	✓
Electric Service	✓
Sanitary Sewer	✓
Septic Tank	
Storm Sewer	✓
PARKING SPACES	
No. of Garages	
No. of Carports	
No. in Lots	311

PAVING	
STREETS	
Concrete	
Macadam	✓
PARKING LOT	
Concrete	
Macadam	✓
CURB	
Concrete	✓
Macadam	
SIDEWALK	
Concrete	✓
Macadam	

OWNER FURNISHES/PAYS FOR			
Cold Water	✓	Range-Gas	✓
Hot Water	✓	Range-Electric	
Electricity	✓	Refrigerator	✓
Gas	✓	Exh. Fan Kitchen	
Refuse Removal	✓	Exh. Fan Bath	
Metered Indry. fac.		Venetian Blinds	
Customary maint.	✓	Shades	
Air Conditioning		Drapes	
Heat	✓	Carpets	
Master TV antenna	✓	Disposal	
Parking	✓	Dishwasher	
Elevator ( )		Swimming Pool	
Playground		Storage	

TENANT FURNISHES/PAYS FOR			
Electricity		Gas	
Cold Water		Heat	
Hot Water		Appliances	
Air Conditioning			

Repair Program: Completed or to be completed by HUD: Smoke detectors, Waterproofing & damp-proofing bldg exteriors, Repointing masonry, New windows, Security screens, Repair of MATV, 2 New boilers, Individual radiator thermostats, Entrance canopy repairs, Sodium lighting, Roofs, Exterior painting, Gutters & leaders, and drain repair.
To be completed by Purchaser: Attic vents, Redecorate hallways, Site improvements

Local Market Conditions
2.5 mi SW business & financial district - ½ mi E of Fairfield town line. Close by are public housing project interspersed w/commercial-industrial uses & municipal facilities. Schools, shopping, churches, transportation and recreational facilities within convenient distance.

☐ Core ☐ Metro ☐ Non-Metro

SECTION II - OCCUPANCY

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1980												96
1981	95	96	96	95	94	93	93	93	96	95	97	95

SECTION III - ESTIMATE OF ANNUAL INCOME

CURRENT AUTHORIZED RENTAL RATES PER MONTH

Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances
32	1	$ 238	$ 7616	$
100	2	270	27000	
40	3	298	11920	
4	4	322	1288	

Total Residential $ 47,824
Parking $
Commercial sq. ft. @ $
Gross Monthly Rent Roll $ 47,824
Gross Annual Rent Roll $ 573,888

MARKET COMPARABLE RENTS PROJECTED TO 7/82

Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances
32	1	$ 340	$ 10,880	$
100	2	360	36,000	
40	3	400	16,000	
4	4	455	1820	

Total Residential $ 64,700
Parking $
Commercial sq. ft. @ $
Gross Monthly Rent Roll $ 64,700
Gross Annual Rent Roll $ 776,400

SECTION 8

Gross Rent	120% FMR	Total Gross Rents
$ 340	$ 349	$ 10,880
360	415	36,000
400		16,000
455		1,820

Total Monthly $ 64,700
Total Annual $ 777,000
☒ Existing (PD)
☐ Mod. Rehab. (PD)
☐ Sub. Rehab. (PD)
☐ Other

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER 031-30047

SECTION

PROJECT STATUS (Check applicable box)
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
UNIVERSITY TOWERS
100 Memorial Parkway
New BRUNSWICK, N.J.
08901

INSTRUCTIONS

1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check.
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.

TCD = Target Completion Date.

MANAGEMENT AGENT NAME Bruskin Agency

RESIDENT MANAGER NAME VICKIE CONCEPCION

DATE HIRED / /

Page 1 of 1 pages

DATE OF INSPECTION 1-13-82

TIME SPENT

PREPARATION	TRAVEL
1 Hours	1 Hours
INSPECTION	**REPORT PREPARATION**
8 Hours	4 Hours

TOTAL TIME 14 Hours

TYPE	TOTAL	NO. INSPECTED
Buildings	1	1
Total Units	16842	6
Vacancies	0	0
Sec. 8 Units	78	4

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations			X	260,000	82
2. Roofs, flashing, vents					
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs			X	5,000	82
5. Walks, steps, guardrails			X	10,000	82
6. Fences, walls, gates					
7. Porches, balconies, fire escapes					
8. Doors, windows, screens			X	40,000	82
9. Garage and carports					
10. Lawns and plantings					
11. Sprinkler and drainage system					
12. Exterior lighting			X	5000	82
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems			X	10,000	82
16.			[redacted]	[redacted]	[redacted]
17. TOTAL EXTERIOR (Add items 1 thru 16)				330,000	?

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping			X	40,000	1982
20. Storm doors and windows					
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				40,000	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles			X	50,000	82
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware		X		35,000	82
27. Painting		X		15,000	82
28. Curtains and shades		X		5,000	82
29. Refrigerators and ranges		X		10,000	82
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators			X	160,000	82
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems		X		35,000	82
34. Heating and air conditioning		/	X	20,000	82
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)				330,000	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment					
39. Laundry rooms, office					
40. Storage, utility buildings					
41. Elevators			X	75,000	
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards			X	25,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				100,000	

48. TOTAL COST (Add items 17, 23, 37 and 47) . . . . $ 800,000

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☒ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME	NAME John Maus
TITLE Realty Specialist	TITLE Chief, Property Disp Br
DATE 1/26/82	DATE 1-26-82

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on overall rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
1	Pointing WALLS, SEALING, Clear Weepholes, Repair Balconies Brick	
	SPANDREL PATCHING	
4	Replace/PATCH ASPHALT MISC.	
[redacted]19	CONCRETE PATCH WALKS, SLABS, Retaining WALLS	
	CAULK AND WEATHER STRIP WINDOWS	
12	EXIT LIGHTS, MISC	
15	Repair INtercom, INSTALL Security AREAS, ETC	
[redacted]8	Repair/replacement DOORS, GLASS, Repair WALLS	
24	Replace damaged FLOORING Throughout AS Needed	
26	" KITCHEN CABINETS AND COUNTER TOPS	
27	PAINTING + DECORATING PUBLIC AREAS	
28	Replace OLD AND damaged Venetian Blinds	
29	" " " " APPLIANCES	
31	overhaul INCINERATOR	
33	Replace BATH TILES, TUBS AND MISC PLUMBING	
34	" HEAT CONTROLS TOP FLOORS	
41	overhaul elevators	
45	INSTALL AC Powered Smoke detectors	

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES			
1. Advertising		$ 50	
2. Office Expense		200	
3. Management Fee	5%	38820	
4. Project Employee Costs	5 empl	65520	
5. Legal and Accounting		5100	
6. Telephone		260	
7. Miscellaneous Administrative		1000	
8. TOTAL ADMINISTRATIVE			$ 110,950
OPERATING EXPENSES			
9. Elevator		$	
10. Janitor and Cleaning			
11. Vehicle			
12. Extermination		2900	
13. Garbage Removal		2080	
14. Security			
15. Grounds		2400	
16. Routine Repairs		19088	
17. Decorating		22000	
18. Miscellaneous Operating		2000	
19. TOTAL OPERATING			$ 51,188
20. Replacement Reserve			$ 44,745
UTILITIES EXPENSES:			
21. Heating Fuel		$ 124,500	
22. Electricity		63,600	
23. Water		12760	
24. Gas		9700	
25. TOTAL UTILITIES			$ 210,560
TAXES/INSURANCE EXPENSES:			
26. Real Estate Taxes		$ 49,478	
27. Personal Property Taxes			
28. Payroll Taxes		9900	
29. Insurance/Bond Premiums		28160	
30. Other			
31. TOTAL TAXES/INSURANCE			$ 87,538
32. TOTAL EXPENSES *(Attach worksheets)*			$ 504,981

SECTION V - COMPUTATION OF SALES PRICE
(Use separate sheet if more than one price)

1. Gross Annual Rent Roll	$ 776,400.
2. Occupancy (x)	95 %
3. Effective Rent Roll	$ 737580.
4. Total Expenses (–)	$ 504,981.
5. Net Income	$ 238,599.
6. Multiplier 12% (x)	7.78
7. Minimum Sales Price *(Repaired)*	$ 1,809,600.
8. Maximum Mortgage 80%	$ 1,447,700
9. Allowable Deductions (–)	$ ~~129,600~~
10. AS IS Sales Price *(Repairs Needed)* 3-2-82	~~1,680,000~~

SECTION VI - LAND VALUE
(Complete this Section only if project is to be sold based on land value.

Land Area ________ sq. ft. ________ acres $ ________ per sq. ft./acres

Land Value = $ ________
(Attach Section J, lines 8, 10 and 11 of Form FHA-2264/HUD-92264.)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ 1,217,200 Mortgage $ 1,212,200 Term 40 Years. Interest Rate 16½ percent.

PRICE TO BE: ☒ Stated ☐ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________

☐ Demolition ________ units in ________ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☐ Bid ☒ Proposals ☐ Negotiated ☐ Other ________

FINANCING: ☒ PMM ☐ IM ☐ Cash ☐ Other ________

ADVERTISING: ☐ National ☒ Local Only

REPAIRS: ☒ To be completed by HUD $ 171,930 by (date): 4-82 ☐ None

☒ To be completed by Purchaser $ 129,600 within 4 months of sales closing.

DISPLACEMENT: ☒ None ☐ Temporary - No. of families ________ ☐ Permanent - No. of families ________.

SUBSIDY: Estimated number of Section 8 eligible families 152. Subsidy to be provided for 176 units 100 percent of project.

☒ PD Set Aside ☒ Existing ☐ Moderate Rehabilitation ☐ Substantial Rehabilitation ☐ Traditional Public Housing

☐ Other *(explain below).* Term of HAP Contract 15 years. Gross Annual Contract Authority $ 777,000

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ____ months ☐ Interest ☐ Principal

☒ Initial funds for replacement reserve $ 44,745 Funded by: ☐ HUD ☒ Purchaser

☐ Other: ________

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE

☒ An Environmental assessment of the proposed disposition is not required.

☐ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation? ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS

Donna M. Bain
Realty Specialist
1/21/82
Date

Bernard M. Cameron
2-3-82
Donna M. Bain
Chief Property Officer
1-26-82
Date

Deputy Director/Development
1-29-82
Date

E. M. Cameron
Deputy Director/Management
1-28-82
Date

Housing Director
2/3/82
Date

If disposition includes insured mortgage financing, the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223( ) the National Housing Act.

U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER: 017-44169
SECTION: 236

PROJECT STATUS (Check applicable boxes): ☐ Insured ☐ HUD-Held ☐ Public Hsg. ☐ Indian ☒ HUD-Owned ☐ Owned ☐ Leased ☐ Homeownership

PURPOSE OF REPORT (Check applicable boxes):
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
Evergreen Manor
Bridgeport, CT

PUBLIC HOUSING DATA
End of initial operating period (EIOP) ______
Date of full availability (DOFA) ______
NO. OF PROJ. EMPLOYEES

INST[illegible]TIONS
1. For each item [illegible]ected, check block A, M, or I. Fully describe corrections needed on each M and I items check
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan spec., HMD, and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
3. TCD = Target Completion Date
Prepare in accordance with Handbook 4360.1 Chapter 8, or Handbook HM 7460.1 supp. 1, Chapter 8 as appropriate

MANAGEMENT AGENT AND/OR PHA NAME
Mitchell Realty, Inc.
RESIDENT MANAGER NAME
Carlos Abreu-Ceigel
DATE HIRED 12/ 12 / 80

Page 1 of 1 pages
DATE OF INSPECTION

TIME SPENT	
PREPARATION	TRAVEL
Hours	Hours
INSPECTION	REPORT PREPARATION
Hours	Hours
TOTAL TIME	Hours

TYPE	TOTAL	NO. INSPECTED
Buildings		
Total Units		
Vacancies		
Sec. 8 Units		

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations	x			63,496	
2. Roofs, flashing, vents, chimneys			x	99,385	4.82
3. Gutters, downspouts, splashblocks			x	39,695	2.82
4. Drives, parking lots, paving, curbs		x		92,000	7.82
5. Walks, steps, guardrails					
6. Fences, walls, gates					
7. Porches, balconies, fire escapes	x			4,600	
8. Doors, windows, screens	x			186,912	
9. Garage and carports					
10. Lawns and plantings					
11. Sprinkler and drainage system			x	23,500	4.82
12. Exterior lighting & distribution sys.	x			16,239	
13. Exterior painting			x	9,350	4.82
14. Underground gas, water, sewage					
15. Security systems					
16. Attic Vents		x		12,100	7.82
17. TOTAL EXTERIOR (Add items 1 thru 16)				547,277	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping					
20. Storm doors and windows					
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)					

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles					
25. Stairs, walkways, community spaces		x		25,500	7.82
26. Cabinets, doors, closets, hardware					
27. Painting, condition-walls & ceilings					
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning	x			141,372	
35. Hot water system, boiler room					
36. Resident care of unit					
37.					
38. TOTAL INTERIOR (Add items 24 thru 37)				166,872	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
39. Benches, play area and equipment					
40. Laundry rooms, office					
41. Storage, utility buildings					
42. Elevators					
43. Project signs					
44. Swimming pools, spray pool					
45. Exterminating					
46. Fire and Safety Hazards	x			1,791	
47. Commercial areas					
48. MATV	x			9,900	
49. TOTAL MISC (Add items 39 thru 48)				11,691	

50. TOTAL COST (Add items 17, 23, 38 and 49) .... $ 725,840

51. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below): ☐ Superior ☐ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME	NAME 5/3/82
TITLE Realty Specialist	TITLE Acting Chief Property Officer
DATE 1/26/82	DATE 1/26/82

OCCUPANCY
Seasonal ☐ YES ☒ NO
Transient ☐ YES ☒ NO
If "Yes", explain

SIGNIFICANT TRENDS
Neighborhood change ☐ YES ☒ NO
Management change ☐ YES ☒ NO
If "Yes", explain

Is there a community facility? ☒ YES ☐ NO
Is there a day care facility? ☐ YES ☒ NO

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 48 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
2,3,11,13	are HUD-awarded contracts. Completion date has been extended due to weather conditions.	
4,16,25	are items of repair which the purchaser will have to complete.	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
MULTIFAMILY SALES PROGRAM

DISPOSITION RECOMMENDATION FOR HUD-OWNED MULTIFAMILY PROJECT

SECTION I - BACKGROUND

Name (Present): SURREY/CARLTON APARTMENTS

Name (Former, if different):

Address (City, State, including ZIP Code):
SLINN & EWING AVENUES
SPRING VALLEY, NEW YORK

Date Acquired: 7/31/79

Area/Service Office: NEW YORK AREA OFFICE

Project Number: 012-44050/55110

Section of Act: 236

Type of Project: ☐ Elevator ☐ Walkup ☒ Garden ☐ Highrise ☐ Townhouse ☐ MHP ☐ Nursing Home ☐ Vacant Land ☐ Other ____

Number of Stories 2	Number of Units 184	Number of Revenue Units 182	Number of Non-revenue Units 2	Formerly ☐ Subsidized ☐ Unsubsidized
Date Insured (Month/Year) 12/70	Year Completed 1970	Year Rehab'ed	Percent Completed 100 %	Number of Buildings 4
Estimated Economic Life 40 years				

CONSTRUCTION

Foundation	CONCRETE
Exterior walls	BRICK
Floors-constr.	1ST FL CONCRETE SLAB
- finish	OTHER FLOORS WOOD
Roofing	
Heating fuel	☐ Electric ☒ Gas ☐ Oil ☐
Heating system	☐ Individual ☒ Central
Air Conditioning	☐ Individual ☐ Central ☐ Sleeves only
Domestic hot water	☐ Electric ☒ Gas ☐ Oil ☐
Hot water system	☐ Individual ☒ Central
Windows	☐ Screens ☐ Storm ☐ Insulated
Individually Metered Utilities	☐ Electric ☐ Fuel ☐ Water

UTILITIES

Public Water Supply	X
Gas Main	X
Electric Service	X
Sanitary Sewer	X
Septic Tank	
Storm Sewer	X

PARKING SPACES

No. of Garages	
No. of Carports	
No. in Lots	

PAVING

STREETS	
Concrete	
Macadam	X
PARKING LOT	
Concrete	
Macadam	X
CURB	
Concrete	
Macadam	
SIDEWALK	
Concrete	
Macadam	

OWNER FURNISHES/PAYS FOR

Cold Water	X	Range-Gas	X
Hot Water	X	Range-Electric	
Electricity	X	Refrigerator	X
Gas	X	Exh. Fan Kitchen	
Refuse Removal	X	Exh. Fan Bath	
Metered laundry. fac.		Venetian Blinds	
Customary maint.	X	Shades	
Air Conditioning		Drapes	
Heat	X	Carpets	
Master TV antenna	X	Disposal	
Parking	X	Dishwasher	
Elevator ( )		Swimming Pool	
Playground	X	Storage	

TENANT FURNISHES/PAYS FOR

Electricity		Gas	
Cold Water		Heat	
Hot Water		Appliances	
Air Conditioning	X		

Repair Program:

Purchaser must enter into an agreement with a contractor within three months after title to commence the repair program. It is estimated that the repairs should be completed within eight months from date of commencement.

Local Market Conditions

Local housing market conditions are good and the project area is adequate with regard to school, churches, recreation, transportation, etc.

SECTION II - OCCUPANCY

☐ Core ☐ Metro ☐ Non-Metro

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1980			79	78	79	79	79	79	78	78	78	77
1981	78	79	79	79	79	79	79	78	78	76	76	77

SECTION III - ESTIMATE OF ANNUAL INCOME

CURRENT AUTHORIZED RENTAL RATES PER MONTH					MARKET COMPARABLE RENTS PROJECTED TO 7/83					SECTION 8		
Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Number of Units	Number of Bedrooms	Monthly Rent	TOTAL	Utility Allowances	Gross Rent	120% FMR	Total Gross Rents
51	1	$ 260	$ 11,260	$ N/A	51	1	$ 372	$ 18,972	$ N/A	$ 372	$ 491	$ 18,972
129+2	2	325	41,925		129+2	2	444	57,276		444	586	57,276
2	5	550	1,100		2	5	670	1,340		670	886	1,340

Total Residential $ 56,285	Total Residential $ 77,588	Total Monthly $ 77,588
Parking $	Parking $	
Commercial sq. ft. @ $	Commercial sq. ft. @ $	Total Annual $ 931,056
Gross Monthly Rent Roll $ 56,285	Gross Monthly Rent Roll $ 77,588	☐ Existing (PD) ☒ Mod. Rehab. (PD) ☐ Sub. Rehab. (PD) ☐ Other
Gross Annual Rent Roll $ 675,420	Gross Annual Rent Roll $ 931,056	

SECTION IV - ESTIMATE OF ANNUAL EXPENSES
(Attach Worksheets)

ADMINISTRATIVE EXPENSES:		
1. Advertising	$	
2. Office Expense	1,500	
3. Management Fees	46,552	
4. Project Employee Costs		
5. Legal and Accounting	3,680	
6. Telephone		
7. Miscellaneous Administrative		
8. TOTAL ADMINISTRATIVE		$ 51,732
OPERATING EXPENSES:		
9. Elevator	$	
10. Janitor and Cleaning	73,424	
11. Vehicle	6,440	
12. Extermination	5,520	
13. Garbage Removal	14,040	
14. Security		
15. Grounds	6,000	
16. Routine Repairs	17,480	
17. Decorating	17,325	
18. Miscellaneous Operating		
19. TOTAL OPERATING		$ 140,229
20. Replacement Reserve		$ 16,558
UTILITIES EXPENSES:		
21. Heating Fuel GAS	$ 108,038	
22. Electricity	79,903	
23. Water	22,200	
24. Gas		
25. TOTAL UTILITIES		$ 210,141
TAXES/INSURANCE EXPENSES:		
26. Real Estate Taxes	$ 116,610	
27. Personal Property Taxes		
28. Payroll Taxes	7,342	
29. Insurance/Bond Premiums	8,000	
30. Other	7,342	
31. TOTAL TAXES/INSURANCE		$ 139,294
32. TOTAL EXPENSES *(Attach worksheets)*		$ 557,954

SECTION V - COMPUTATION OF SALES PRICE
(Use separate sheet if more than one price)

1. Gross Annual Rent Roll	$ 931,056
2. Occupancy (x)	95 %
3. Effective Rent Roll	$ 884,503
4. Total Expenses (−)	$ 557,954
5. Net Income	$ 326,549
6. Multiplier (x)	7.78
7. Minimum Sales Price *(Repaired)*	$ 2,540,550
8. Maximum Mortgage	$ 2,032,440
REPAIR 9. Allowable Deductions (−) OPERATING DEFICIT	$ 1,600,000 291,225
10. AS IS Sales Price *(Repairs Needed)*	$ 649,325

SECTION VI - LAND VALUE *(Complete this Section only if project is to be sold based on land value.)*

Land Area ________ sq. ft. ______ acres $ ________ per sq. ft./acre

Land Value = $ ________
(Attach Section J, lines 9, 10 and 11 of Form FHA-2264/HUD-92264.)

SECTION VII - CONDITIONS OF SALE

SALES PRICE $ TO BE NEGOTIATED Mortgage $ 649,325 Term 40 Years. Interest Rate 12% percent.

PRICE TO BE: ☐ Stated ☒ Unstated ☐ Authority to accept highest price bid

TYPE OF SALE: ☒ Rental ☐ Cooperative ☐ Condominium ☐ Single Family ☐ Traditional Public Housing ☐ Other ________

☐ Demolition ________ units in ____ buildings. To be accomplished by: ☐ HUD ☐ Purchaser

METHOD OF SALE: ☐ Bid ☐ Proposals ☒ Negotiated ☐ Other ________

FINANCING: ☒ PMM ☐ IM ☐ Cash ☐ Other ________

ADVERTISING: ☐ National ☐ Local Only

REPAIRS: ☐ To be completed by HUD $ ________ by (date): ________. ☐ None

☒ To be completed by Purchaser $ 1,600,000 within 11 months of sales closing.

DISPLACEMENT: ☒ None ☐ Temporary - No. of families ________. ☐ Permanent - No. of families ________.

SUBSIDY: Estimated number of Section 8 eligible families 100%. Subsidy to be provided for 182 units, 100 percent of project.

☒ PD Set Aside ☐ Existing ☐ Moderate Rehabilitation ☒ Substantial Rehabilitation ☐ Traditional Public Housing

☐ Other *(explain below)*. Term of HAP Contract ______ years. Gross Annual Contract Authority $ 931,000

SPECIAL PROVISIONS: ☐ Sales Commission ____ percent. ☐ Deferments $ ________ for ___ months ☐ Interest ☐ Principal

☐ Initial funds for replacement reserve $ ________ Funded by: ☐ HUD ☐ Purchaser

☐ Other ________

SECTION VIII - ENVIRONMENTAL ASSESSMENT

CHECK ONE OF THESE THREE

☒ An Environmental assessment of the proposed disposition is not required.

☐ An Environmental Assessment was completed and is attached. *(Note significant findings below.)*

☐ An Environmental Assessment was completed and is attached as an Environmental Impact Statement. *(Note significant findings below.)*

HISTORIC PRESERVATION: Impacts on Historic Preservation ☒ No ☐ Yes, explain below

SECTION IX - REMARKS AND SIGNATURES

REMARKS

________ 3/15/82
Realty Specialist Date

________ 3/15/82
Chief Property Officer Date

________ 3/15/82
Deputy Director/Development Date

Sidney Shwartz 3/15/82
Deputy Director/Management Date

________ 3/15/82
Housing Director Date

If disposition includes insured mortgage financing the signature of the Housing Director constitutes approval of a commitment to insure a mortgage under section ________ of the National Housing Act pursuant to section 223(c) of the National Housing Act

REPORT OF PHYSICAL CONDITION AND RECOMMENDATIONS FOR EXPENDITURES

PROJECT NAME: SURREY - CARLTON COLONY APARTMENTS

PROJECT NO: 012-44050/55110

ADDRESS: 1 -27 SLINN AVENUE, SPRING VALLEY, NEW YORK

EXPENDITURES RECOMMENDED FOR:
☐ Protection and Maintenance
☒ Upgrading

ITEM(S)	REPAIRS RECOMMENDED	$ AMOUNT
1. Foundation and Retaining Walls	Repair all ext. walls and steps	$ 15,000
2. Exterior Walls	Point & repair all ext. walls of bldgs.	3,000
3. Caulking and Weatherstrip	100% ext. openings	25,000
4. Roofing, Guttering and Downspouts	Repair roofing, gutters, downspouts clean all lines (use 5" C.I.)	30,000
5. Trim and Millwork Doors	Repair all ext. door & frames (solid door)	50,000
6. Windows, Screens and Storm Doors	Reset 100% Al, window sills, replace 10% alum windows, install 50% new Al storm windows	100,000
7. Porches, Steps and Fire Escapes	Repair, replace canopies & steps all bldgs. sand, scrape and paint all fire escapes	50,000
8. Balconies and Terraces		
9. Awnings and Canopies		
10. Fences and Gates	Repair dam-fences install new where req'd	8,000
11. Walks, Driveways and Parking Lots	Resurface all parking lots & driveways provide positive drainage	60,000
12. Garages and Carports		
13. Storage, Utility and Recreation Bldgs.		
14. Landscaping and Exterior Lighting	Repair all ext. lighting & benches	25,000
15. Sewer and Drainage	Repair all drainage & sewer lines and lift station - build new M.H.	80,000
16.		
17. Basement		
18. Floors	Repair all damaged flooring & sub-floor	20,000
19. Carpeting		
20. Stairs and Hallways	Repair plaster, entry doors, paint stairwell	60,000
21. Base, Trim and Millwork	Repair walls, finish carpentry	20,000
22. Cabinets, Closets, Doors and Hardware	Replace 90% kithen cabinets 90% counter tops w/sinks 50% closet doors	130,000
23. Walls and Decorating	Repair walls-plaster-& paint all apts 100%(140)	70,000
24. Glazing, Shades and Blinds		
25. Ranges	60% replacement	30,000
26. Refrigerators	60% replacement	60,000
27. Wiring and Light Fixtures	Re-wire 90 apts with copper wire	50,000
28. Plumbing and Plumbing Fixtures	Repair all plumbing lines to bath, & kitchen. Install valves in each apt.	10,000
29. Garbage Disposals	Provide enclosures for dumpsters	5,000
30. Exhaust Fans	Replace damaged roof fans	20,000
31. Heating	Repair & balance all heating systems	
32. ~~Air Conditioning~~	Repair damaged hot H_2O Exchanges	130,000
33. ~~Hot Water System~~	Insulate all piping	
34. Fire damaged Apts.	Completely repair (44) damaged apts.	220,000
35. Incinerators and Trash Compactors		
36. Elevators		
37. Laundry Rooms		
38. TV Antenna System		
39. Swimming Pools		
40. Project Signs		
41. Playgrounds and Equipment	Replace swings, slides, bars	8,000
42. Misc. Repairs	Plumbing & other	5,000
43. Roof Insulation	Increase roof ins. to 6"	70,000
44.		
45.		1,344,000
	+20% GR/OH/PR	

(USE REVERSE IF ADDITIONAL SPACE IS REQUIRED)

TOTAL $ 1,592,800

PREPARED BY:		REVIEWED AND ACCEPTED BY:	
[illegible]	Y.H. Sawan Gen Engr.	12/14/81	Robert E. Porter /s/ Sidney Schwartz
(Date)	(Signature and Title)	(Date)	(Signature and Title)

SUBJECT: Authorization to use a Modified Purchase Proposal for the Sale of Nine Projects

Mt. Prospect Towers
Project No. 031-00207
Newark, NJ

Park Towers
Project No. 017-00101
Bridgeport, CT

Sherwood Village I and II
Project No. 012-30337/45
Queens, NY

Gregory Park III
Project No. 031-55017
Jersey City, NJ

University Towers
Project No. 031-30047
New Brunswick, NJ

Evergreen Manor
Project No. 017-44169
Bridgeport, CT

Surrey (formerly Colony Apts)
Project No. 012-55119
Carlton (formerly New Carlton Apts)
Project No. 012-44050
Spring Valley, NY

I. BACKGROUND

In September 1981, the Department was approached by the First American Housing Preservation Corporation (FAHPC) to try an experimental method of selling HUD-owned multifamily properties. This experimental approach was the concept of packaging several properties of varying attractiveness together and selling them as one group. The philosophy behind the packaging approach is to combine some attractive properties, some medium properties and some unattractive properties together and use the attractive properties to entice buyers to also purchase the least attractive.

The Department considered FAHPC's idea and decided to try this approach on an experimental basis with the above-listed seven properties. Of these seven properties, two are considered attractive -- Mt. Prospect Towers and Park Towers. They are considered attractive because of the good physical condition and strong potential for condominium conversion. Two projects are considered unattractive -- Surrey/Carlton and Evergreen Manor. These two projects are considered unattractive because of physical condition, location and tenant body composition. The other three projects -- Sherwood Village I and II, Gregory Park III and University Towers -- are middle range projects that have potential to be viable rental housing with some repairs and proper management.

HUD's contractor for multifamily property disposition activities for Region II negotiated the terms of the proposed sale with FAHPC which resulted in an offer to purchase the seven properties on January 8, 1982. This offer was modified January 18, 1982 to clarify the terms and conditions of the sale. HUD tentatively accepted FAHPC's offer on March 15, 1982.

On May 24, 1982, HUD determined that the issues raised by a negotiated sale could best be resolved by HUD's considering proposals from other interested parties based on the same terms and conditions included in the FAHPC offer. Therefore, a Solicitation of Purchase Proposal (Attachment A) based on FAHPC's proposal (except where amplified by HUD) has been mailed to all parties who have expressed an interest in making an offer to purchase.

II. COMPLIANCE WITH STATUTORY AND REGULATORY REQUIREMENTS

The following analysis discusses the compliance of this proposed sale with HUD's multifamily property disposition regulations and statutes. It will be necessary for the Assistant Secretary for Housing to waive some provisions of the property disposition regulations. These waivers are itemized below with justification therefor.

A. 24 C.F.R. Part 290 -- Management and Disposition of HUD-Owned Multifamily Housing Projects. Subpart C (290.20 through 290.53) of this Part sets forth the disposition provisions to be followed by HUD in a sale. Each provision will be addressed for each project, as appropriate.

290.20 -- Disposition Objectives. The objectives to be achieved by HUD when disposing of its multifamily housing inventory are to provide affordable housing and preserve and revitalize neighborhoods while protecting the financial interests of the government. The proposed method of sale meets these objectives by preserving all of the units now serving low-income families for those families by providing Section 8 assistance. The proposed sale helps preserve and revitalize neighborhoods by requiring any purchaser to repair all properties included in the sale. Repairing the properties will enhance conditions for both the tenants and in the surrounding areas. Additionally, the proposed sale requires the purchaser be financially and technically qualified to own and manage approximately 1150 units. Financial and managerial capability will also help preserve the projects and revitalize the neighborhoods. Finally, the proposed sale protects the financial interests of the government because the minimum terms of any offer must meet the FAHPC offer, which exceeded HUD's estimated sale price by several million dollars if these properties were sold individually.

290.25 -- Determination of need for low- and moderate-income housing. The Area Office Directors have found that there is need for low- and moderate-income housing in the market areas surrounding six of the seven projects (excluding Mt. Prospect). These six projects are serving, at least in part, as lower income housing resources. They will be sold with Section 8 subsidy to serve the housing need.

290.27 -- General determination of subsidy to be provided. This provision requires that subsidy be provided: (1) for 100 percent of the units when selling a formerly subsidized project, or at least for all eligible tenants; and (2) for all eligible tenants in a formerly unsubsidized project. Attachment B shows the projected Section 8 allocations for the seven projects. These allocations are discussed below.

Mt. Prospect -- formerly unsubsidized. No subsidy is provided because the project is not a lower income housing resource and no eligible tenants live in the project.

Park Towers -- formerly unsubsidized. The project does not serve as a lower housing resource since only 23 of the 109 units are housing lower income families. These 23 families will be provided with Section 8 Certificates of Family Participation. The families may choose to use these Certificates to remain in the project or to move to different housing. Because of the tight rental market in Bridgeport (1.5% vacancy rate) HUD will waive the limitations on the subsidy rent levels to permit families to remain in the project if they so desire.

Sherwood Village -- formerly unsubsidized. Section 8 assistance is being provided for 100 percent of the units because the project is now serving as a lower income housing resource.

Gregory Park III -- formerly subsidized. The project is 100 percent occupied. Of the 200 units, Section 8 will be provided for 148 that now house lower income families. Section 8 is not provided for the additional 52 units because they currently house middle income families that the Department does not want to displace. Subsidy will be provided in the form of Certificates of Family Participation that will allow the eligible families to remain in the project or move if they so desire. HUD is providing Section 8 Certificates, instead of project based subsidy, because the HUD Field Office finds that Certificates will enhance the neighborhood and the future use of the property. The neighborhood currently serves the middle income rental market. The project is in an urban renewal area, on the Hudson River and approximately 10 minutes from downtown New York City. Use of Certificates will allow the current tenants to remain in the project to maintain the economic mix of the project and the neighborhood. Selling the project with Section 8 Certificates also attracts the highest price for the property.

University Towers -- formerly unsubsidized. This project does not serve as a lower income housing resource. This project is being sold with Section 8 Certificates of Family Participation for the 78 families who qualify for Section 8 assistance. HUD is providing Certificates to prevent displacement of the Section 8-eligible families.

Evergreen Apartments -- formerly subsidized. Section 8 assistance will be provided for 100 percent of the units since the project is currently serving as a lower income housing resource.

Surrey/Carlton -- formerly subsidized. Section 8 assistance is being provided for 100 percent of the project since the project serves as a lower income housing resource.

290.33 -- Initial notice and solicitation of comments. HUD Field Office staff have issued acquisition notices to tenants, government agencies and Public Housing Agencies, where appropriate. In some cases, no notices were sent to local PHAs because of the inability of the PHAs to add additional units to their inventories.

290.35 -- Preparation of disposition analysis; and 290.37 -- Director's disposition recommendation. The appropriate Field Offices have submitted disposition analyses for each of the seven projects, approved by the Area Office Directors.

290.40 -- Notice of disposition recommendation. Notices of the disposition programs proposed by each Field Office have been sent to each tenant at each project giving them an opportunity to comment on the proposed disposition.

290.45 -- Notice of displacement; and 290.47 -- Displacement benefits. With the waiver of the subsidy rent limitations for Park Towers, there will be no permanent displacement as a result of this proposed sale.

290.53 -- Methods of disposition. Two of the disposition recommendations submitted by the Field Offices recommended negotiated sales of the properties (Sherwood Village and Surrey/Carlton). The other five recommendations were for publicly advertised competitive offerings. In accordance with 290.50, HUD Headquarters' staff have modified all seven recommendations to use a modified purchase proposal disposition method. This disposition method combines elements of both the negotiated sale and competitive bid methods. The minimum terms of the sale were determined as a result of negotiations with FAHPC, then the sale was opened to all interested parties who want to submit a bid on the package of properties. This disposition method was chosen because of the history of the sale and the experimental nature of the sale. HUD felt it was negotiating the best deal to protect the financial interests of the government with FAHPC. However, when it became apparent that other parties were interested in the package of seven properties, HUD opened the sale up to allow interested parties to submit their highest and best offers.

This disposition method requires a waiver of 290.53 because it does not conform exactly to any of the disposition methods discussed in that section. The waiver should be granted in order that HUD may test the feasibility of the package sale approach. Additionally, this section of the regulations must be waived because the terms have been set except for total sales price and cash to HUD. Therefore, the sale does not conform to the two step purchase proposal procedure envisioned in the regulations. 290.53 also anticipates public advertising of purchase proposals. The Department is not advertising this sale in the normal fashion because of the unusual circumstances of the sale, namely, the complexity of selling seven projects at one time, the wide geographic area over which the projects are spread, and the limited number of parties who would be interested and able to provide the financial, ownership and managerial capabilities to purchase and operate this group of projects.

B. Management and Preservation of HUD-Owned Multifamily Housing Projects, Section 203 of the Housing and Community Development Amendments of 1978, as amended (Public Law 95-557).

HUD's property disposition statute states that the purpose of the property disposition program is to dispose of projects in a manner which protects the financial interests of the government and is least costly to the government, while at the same time furthering the goals of: (1) preserving low- and moderate-income housing; (2) preserving and revitalizing residential neighborhoods; (3) maintaining the existing housing stock; (4) minimizing displacement; (5) minimizing the need to demolish projects; and (6) maintaining the project for the purpose of providing rental or cooperative housing. The Department may balance these competing goals to further the achievement of the overall purpose of the statute.

The proposed sale of these seven projects conforms to the purposes of the statute of protecting the financial interests of the government and being less costly to the government than other alternatives for the following reasons:

1) The minimum proceeds the government can expect from the sale will exceed what the Department could reasonably expect to realize using HUD's standard bidding procedure and compares favorably even with most optimistic estimates HUD has made of the value of these properties. (Attachment C shows HUD's estimates of value.)

2) Sale of the properties to a purchaser with the capability to repair the properties will reduce the costs to the Government by the estimated repair costs. Any purchaser will be required to repair all properties to bring them up to Section 8 Housing Quality Standards and local code standards.

3) The proposed sale will also reduce the costs to the Government by quickly removing the projects from the Government's inventory. This saves the Government the cost of holding the projects, estimated at approximately $10 per unit per day.

The proposed sale meets the other objectives of the statute to the greatest extent possible. The requirement that any purchaser repair all properties means the housing will be decent, safe and sanitary, and helps preserve and revitalize neighborhoods. The requirement that any purchaser be financially and technically qualified to own and manage the properties also helps further the objectives of preserving the housing stock and revitalizing neighborhoods. There will be no displacement of existing tenants or demolition of any units. All units currently housing low- and moderate-income tenants will be maintained for those tenants through the provision of subsidy. All housing units will be maintained as rental or cooperative housing for the longest feasible period.

For five of the seven projects (Sherwood Village, Gregory Park III, University Towers, Evergreen Manor and Surrey/Carlton), the longest feasible period has been determined to be the period of the subsidy contract-15 years. Project-based Section 8 subsidy contracts run for 15 years. Certificates of Family Participation are issued for five years, renewable for two additional five-year periods. Tenants may retain their Certificates as long as they remain income eligible.

For the other two projects, Mt. Prospect and Park Towers, HUD has determined that it is inappropriate to place a rental or cooperative use restriction on these two projects. It is inappropriate to place a rental use restriction on Mt. Prospect because it does not serve an area where there is an unmet need for low- and moderate-income rental housing and it does not serve as a lower-income housing resource. Additionally, Mt. Prospect is located in an area where there is a very tight homeowner vacancy rate (0.9%). Conversion from rental use may help to create additional opportunities for homeownership in the neighborhood. HUD has determined it is inappropriate to place a rental use restriction on Park Towers because, in a survey conducted among the tenants in October 1981, 71 percent of the tenants were interested in purchasing their units, either through condominium or cooperative ownership. In addition, it does not serve as a housing resource for lower-income families.

III. FINDINGS

Based on the above the Department finds that:

1. The recommended method of sale for these seven projects is the concept of "bundling," wherein HUD sells several projects in one package. Under this method, otherwise difficult to market projects are successfully sold because attractive investment projects are included with them.

2. HUD believes the proceeds of this package sale will exceed what the Department could reasonably expect to realize using HUD's standard sales procedure and compares favorably even with the most optimistic estimated sales price of $11,485,000. An analysis (Attachment C) supports this statement.

3. The prospective purchaser will be thoroughly knowledgeable in the management of income-producing real estate and will have the capability to manage real estate located in several states and to effect the repairs required to qualify the properties for Section 8 housing assistance. It is expected that the overall management of the projects and landlord-tenant relationships will be superior to that which presently exists.

4. The proposed disposition will relieve the Government of excessive rehabilitation expenses and will promptly terminate its excessive holding costs. Based on the Department's current estimated holding cost of approximately $10 per unit per day, continuing to hold these 1146 units in inventory is costing HUD approximately $343,800 per month. The actual holding costs for these projects are probably higher since most of these particular projects are in higher cost metropolitan areas.

5. The purchaser's cash investment, plus safeguards required by HUD, will adequately secure HUD's interests in having the projects properly rehabilitated and protect the Department's interests on the mortgaged properties. Safeguards added by HUD include:

   a. Provision of two unconditional and irrevocable letters of credit totaling $1,300,000 for repairs for University Towers and to guarantee payment of operating deficits.

   b. Provision of payment and performance bonds for 15 percent of the cost of rehabilitation for each project.

   c. Cost certification of all rehabilitation costs before rehabilitation funds will be disbursed.

   d. Prohibition on payment of Section 8 assistance until units meet Section 8 Housing Quality Standards.

   e. Prohibition on conversion of any projects to condominium or cooperative ownership until repairs on all projects are completed.

   f. Insertion of a covenant in each deed that if the required repairs are not carried out title will revert to HUD.

   g. Insertion of a cross-default provision in all mortgages that allows HUD to declare all mortgages in default if any one mortgage goes into default.

6. The recommended deferment of debt service payments is based on reasonable estimates of the time needed for the repairs and for commencement of the Section 8 payments.

7. This transaction will serve as a model for a marketing technique to be used in future sales. It is believed that this approach will achieve the following objectives:

   a. Reduce HUD's expenses and increase sales proceeds;

b. Support HUD's goal to preserve the existing housing stock in decent, safe and sanitary condition;

c. Significantly and quickly reduce HUD-acquired multifamily inventory;

d. Direct substantial sums of private funds to insure the long-term viability of projects sold by HUD;

e. Provide good quality housing units to tenants of a wide variety of income levels;

f. Encourage sales of larger groups of units to larger, more financially and administratively capable owners, thus ensuring long-term project viability; and

g. Propose a model for packaging HUD-owned projects that encourages the disposition of difficult to market multifamily properties by marketing them with desirable properties.

IV. DETERMINATION

Based on the foregoing, I have determined that selling the seven projects as a package using a modified purchase proposal sales method is in the best interests of the Department. A waiver of 24 CFR 290.53 is granted to provide for this modified purchase proposal approach, based upon the novel concept of the bulk sale of a package of properties. This concept presents an opportunity to have these troubled properties placed into responsible ownership, and to have them restored to acceptable condition sooner and at lower cost than if repaired through Federal procurement procedures prior to sale. Because this concept is novel, I believe the complexities of this transaction involving numerous and disparate properties can only be adequately addressed through the modified purchase proposal approach.

I have also determined that it is in the best interests of the Department to sell these projects with the amounts and types of subsidy recommended in Attachment B. Subsidy is being provided for all Section 8-eligible tenants currently residing in these projects. In order to prevent displacement of the Section 8-eligible families in Park Towers I am granting a waiver of subsidy rent levels pursuant to 24 CFR 290.27 for these families. Additionally, I am waiving 24 CFR 290.27 for Gregory Park III to allow the use of Section 8 Certificates of Family Participation for the eligible families. This waiver is granted to maintain the economic mix of the tenacy and to allow for the highest and best future use of the property while still providing assistance for the eligible families.

8/10/82

Philip Abrams, General Deputy Assistant Secretary-
Deputy Federal Housing Commissioner

Date

ATTACHMENT A

SOLICITATION OF PURCHASE PROPOSAL

Surrey/Carlton Apartments
(184 Units)
Spring Valley, New York
FHA # 012-55119-44060

Evergreen Apartments
(176 Units)
Bridgeport, Connecticut
FHA # 017-44169

Park Towers
(109 Units)
Bridgeport, Connecticut
FHA # 017-00101

Sherwood Village
(203 Units)
Queens, New York
FHA # 012-30337-46

Mt. Prospect
(106 Units)
Newark, New Jersey
FHA # 031-00207

University Towers
(168 Units)
New Brunswick, New Jersey
FHA # 031-30047

Gregory Park III
(200 Units)
Jersey City, New Jersey
FHA # 031-56017

The following are the terms and conditions of First American Housing Preservation Corporation's (FAHPC) current offer to purchase the above-captioned projects.

I. Total Sales Price (7 Projects): $10,900,000
Cash Payment: $ 4,100,000
First Mortgages: $ 6,800,000

The first mortgages totaling $6,800,000 are based on an interest rate of 11 1/2 for a term of 40 years subject to a 15-year call.

II. HUD will accept four promissory notes totaling $3,550,000 to be secured by second mortgages for rehabilitation of four of the projects listed above - Surrey/Carlton, Evergreen Apartments, Sherwood Village and Gregory Park III. Terms of the payment will be as follows:

A. The term shall be for 15 years.
The interest rate shall be 2 1/2%.
The amortization schedule shall be based on 30 years with the balance (principal and interest) due at the conclusion of the aforementioned 15th year.

B. All income from all the properties covered by HUD-held mortgages shall be applied in the following priority:

1. Operating Expenses

2. Debt service and escrow payments on the first mortgage, including payments to the Reserve Fund for Replacements.

3. Interest on second mortgage.

4. A 10 percent return on equity.

5. Any balance remaining shall be applied to a principal reduction on the second mortgage.

The purchaser must provide an additional $800,000 unconditional and irrevocable letter of credit towards the rehabilitation of University Towers.

HUD will permit disbursements of the $3,550,000 as repairs are completed.

III. The conversion of any of the projects in this package to condominium or any other form of ownership will not be permitted until repairs on all projects are completed.

IV. If any of the properties involved in this transaction are sold, with the exception of those sold for all cash, then all indebtedness owed HUD on that project, both principal and interest, shall be immediately due and payable.

V. HUD will supply Section 8 funding for five of the above-captioned projects - Surray/Carlton, Evergreen Apartments, Sherwood Village, University Towers and Gregory Park III. Approximate Section 8 allocations are included on Schedule I.

The purchaser must furnish comparables of rents in the areas of properties that are being purchased to substantiate a request for Section 8 rents, either existing, moderate rehabilitation or substantial rehabilitation in nature.

VI. HUD will insert cross-default provisions in all mortgages that will provide that, as long as HUD holds the mortgages, in the event of any monetary or covenant default in any one mortgage HUD will have the right to declare all other mortgages in default.

VII. HUD will grant a temporary deferment of debt service payments until Section 8 Housing Quality Standards can be achieved but for no longer than the periods set forth below. Purchaser must make pro rata mortgage payments as the Section 8 units are released for occupancy. Purchaser will execute an agreement to enter into a Housing Assistance Payments Contract.

Maximum Periods of Mortgage Deferment

Sherwood Village - 6 months
Gregory III - 6 months
Evergreen Manor - 6 months
Surrey/Carlton - 18 months

VIII. Purchaser must agree to do the following:

1. Provide a $500,000 unconditional and irrevocable letter of credit at closing to ensure payment of the operating deficits for those projects for which HUD is taking back a purchase money mortgage. The letter of credit will be held for six months after all projects are rehabilitated and received permanent certificates of occupancy. Interim inspections of units will be required by HUD and partial Section 8 funding of properties will be made as work proceeds.

2. Provide HUD, as obligee, a Payment and Performance Bond in the amount of 15% of the cost of rehabilitation for each project.

3. Purchaser must certify all rehabilitation costs before rehabilitation funds will be disbursed. Overhead and profit will be limited to 10 percent of the cost of construction.

4. HUD approved management companies will prepare and submit for approval a management plan for each FHA-financed property.

5. Permission will not be given for a two-year period to convert Mt. Prospect or Park Towers to a cooperative or condominium form of ownership.

6. Any net conversion profit on the property will be shared by HUD and the purchaser in the following manner: 25 percent to HUD; 75 percent to purchaser. Attached Schedule II shows distribution of profits.

7. A written offer shall be submitted by July 9, 1982 to HUD's General Counsel for public bid opening. A certified check for 10 percent of the cash offer will be required which will be forfeited if the selected purchaser fails to close the sales in accordance with the accepted offer.

ATTACHMENT B

SCHEDULE I

APPROXIMATE SECTION 8 ALLOCATIONS

Project	Units	#Sect. 8 Units	Type of Sect. 8	Term of Sect. 8	Contract Authority	Budget Authority
Mt. Prospect	105	None	None	None	None	None
Park Towers	109	23	Certificates	15 yrs.	99,000	1,485,000
Sherwood Village	203	203	Mod. Rehab.	15 yrs.	1,327,000	19,905,000
Gregory Park III	200	148	Certificates	15 yrs.	573,000	8,595,000
University Towers	168	78	Certificates	15 yrs.	365,000	5,475,000
Evergreen Manor	176	176	Existing	15 yrs.	777,000	11,655,000
Surrey-Carlton	182	182	Mod. Rehab.	15 yrs.	931,000	13,965,000
	1143	810			4,072,000	61,080,000

NOTE: Section 8 assistance being provided for all Section 8 - eligible tenants.

SCHEDULE II

DISTRIBUTION OF PROFITS TO CO-OP AND/OR CONDOMINIUM CONVERSION

A. Total retail sellout of co-op or condo.

Less: 15% of total sellout for all soft costs

Less: $4000.00 per unit for rehabilitation of same

Less: Original acquisition and rehab costs

B. Net Amount of Profit

C. Division of Profit:

1. 75% owner
2. 25% Department of Housing and Urban Development

SCHEDULE III

PROJECT/AREA	UNITS	PURCHASE PRICE	CASH	MORTGAGE	REHABILITATION	SECOND MORTGAGE	ESTIMATED OPERATING LOSS
MT. PROSPECT, NWK 1/...	106	$ 500,000	$ 500,000	$ ALL CASH		NONE	-0-
PARK TOWERS, CT 2/...	109	2,000,000	2,000,000	ALL CASH		NONE	465,000 4/
SHERWOOD, NY	203	2,550,000	100,000	2,450,000	$ 850,000	$ 850,000	90,000
GREGORY III, NWK	200	2,230,000	650,000	1,580,000	750,000	750,000	20,000
UNIVERSITY TOWERS, NWK	168	700,000	700,000	ALL CASH	800,000 3/	NONE	30,000
EVERGREEN, CT	176	1,750,000	100,000	1,650,000	350,000	350,000	50,000
SURREY/CARLTON, NY	184	1,170,000	50,000	1,120,000	1,600,000	1,600,000	$250,000
	1,146	$10,900,000	$4,100,000	$6,800,000	$4,350,000	$3,550,000	$905,000

1/ - Rental 2 years

2/ - Rental 1 year

3/ - This amount shall be funded by purchaser

4/ - Assumes conversion during 2nd year of operation and 50 percent vacancy

...Purchase Price assumes fully repaired property and no deed restrictions inconsistent with the offer

ATTACHMENT C

ANALYSES OF SALES PRICE

Attached are several analyses of the proposed sale including comparison of the following programs and back up material for these numbers:

Table I.	Summary of the six different scenarios.
Table II.	Analysis of the present value of each sales program.
Table III.	Analysis of the income stream from each sales program.
Table IV.	Initial analysis of sale, using combination of HUD and First American Housing Preservation Corporation (FAHPC) estimates of income, expenses and repairs. This analysis uses highest estimate of income and lowest estimate of expenses and repairs.
Table V.	FAHPC offer, based on FAHPC estimates of income and expenses, capitalized at an 11 1/2 percent interest rate.
Table VI.	Current HUD program, offering purchase money mortages (PMM) for 80 percent of value at an 11 or 12 percent interest rate.
Table VII.	Interim HUD program, where purchaser does repairs and HUD offers PMMs for 90 percent of value at FHA rate (16 1/2 percent). Assumes purchaser borrows repair money at approximately 20 percent interest rate.
Table VIII.	Old HUD program, where HUD repaired projects before selling them, and offered PMMs for 90 percent of value at FHA rate (16.5 percent).
Table IX.	Field Office Property Disposition Committee recommendations, showing actual recommendations on each project from Field Office staff.

Table I. Summary of Six Scenarios

	Summary From:					
	Table IV	Table V	Table VI	Table VII	Table VIII	Table IX
Repaired Value	15,828,186	14,459,550	12,856,351	8,259,340	9,481,801	10,987,918
Repairs	4,342,800	4,342,800	5,036,720	5,036,720	5,036,720	5,035,825
As-is Value	11,485,386	10,116,750	7,001,906	3,284,289	9,481,801	5,135,038
Sales Price	10,900,000	10,900,000	7,501,905	3,884,286	9,981,800*	6,264,637
Cash at Closing	4,900,000	4,900,000	638,700	911,887	998,180	2,115,907
Net Cash to HUD	550,000	550,000	638,700	911,887	998,180	2,115,907
1st Mortgage	6,800,000	6,800,000	6,863,205	2,972,400	8,983,620	4,148,730
2nd Mortgage	3,550,000	3,550,000	...	...	...	...

*Net sales price including repairs completed by HUD and holding costs equals <$3,284,520>.

II. Present Value Analyses

	From Tables IV and V		From Table VI		From Table VII		From Table VIII		From Table IX	
	Face Value	Present Value	Face Value	Present Value	Face Value	Present Value	Face Value	Present Value	Face Value	Present Value
Sales Price	$10,900,000	NA	$7,501,905	NA	$3,884,286	NA	$9,981,800	NA	$6,264,637	NA
Cash In/Out	a/ 550,000	$550,000	638,700	$638,700	911,887	$911,887	998,180	$998,180	2,115,907	2,115,907
1st Mortgage	6,800,000	b/ 5,396,480	6,863,205	d/ 5,524,184	2,972,400	e/ 2,942,676	8,983,620	f/ 8,893,784	4,148,730	h/ 3,859,126
2nd Mortgage	3,550,000	c/ 905,960	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL	NA	6,852,440	NA	6,162,884	NA	3,854,563	NA	9,891,964	NA	5,975,033

Less:
Repairs - 5,036,720
Sub Total 4,855,244
Holding
Costs - 8,229,600 g/
Total - 3,374,356

a/ Total FAHPC investment = $4,900,000 of which $4,350,000 is for repairs.
b/ Discounted at 79.36%
c/ Discounted at 25.52%
d/ Discounted at 76.45% for 11% PMMs and 82.23% for 12% PMMs.
e/ Discounted at 99%.
f/ Discounted at 99%.
g/ Holding costs computed at $8 per day x 1143 units x 900 days (30 months) = $8,229,600.
h/ Discounted at 99% for 16 1/2 % PMMs and 82.23% for 12% PMMs.

Table III. INCOME STREAM

	From Tables:				
	Tables IV&V	Table VI	Table VII	Table VIII	Table IX
Cash Down @ 14%	$ 77,000	$ 89,418	$127,664	(No income	$296,227
1st Mortgage	782,000	803,009	490,446	until repairs	617,962
2nd Mortgage	88,750	...	...	completed)	...
TOTAL	$947,750	$892,427	$618,110		$914,189

Table IV. Initial Analysis (2/1/82)

	HUD estimates based on best possible Scenario using 11 and 12% Capitalized rates						
Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing ---------- Net to HUD	1st Mort. --------- Int. Rate(%)	2nd Mort. --------- Int. Rate(%)
Mt. Prospect. (106 units)	$1	...	$1	$ 500,000	$500,000	...	...
Park Towers (109 units)	2,689,276	...	2,689,276	2,000,000	2,000,000	...	...
Sherwood Village (203 units)	3,308,318	$850,000	2,458,318	2,550,000	100,000	$2,450,000 11.5%	$850,000 2.5%

Table IV. Initial Analysis (2/1/82)

	HUD estimates based on best possible Scenario using 11 and 12% Capitalized rates						
Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing Net to HUD	1st Mort. Int. Rate(%)	2nd Mort. Int. Rate(%)
Gregory III (200 units)	3,122,784	750,000	2,372,784	2,230,000	650,000	1,580,000 11.5%	750,000 2.5%
University Towers (168 units)	1,814,606	800,000	1,014,606	700,000	1,500,000	...	...
Evergreen Apts. (176 units)	1,864,098	350,000	1,514,098	1,750,000	100,000	1,650,000 11.5%	350,000 2.5%
Surrey/Carlton (184 units)	3,029,103	1,592,800	1,436,303	1,170,000	50,000	1,120,000 11.5%	1,600,000 2.5%
TOTALS	$15,828,186	$4,342,800	$11,485,386	$10,900,000	$4,900,000 a/ 550,000	$6,800,000 11.5%	$3,550,000 2.5%

This chart summarizes HUD's initial estimates of the value of the properties and FAHPC's offer. The estimates of repairs and as-is value are based on the highest estimate of income and lowest estimate of expenses, either HUD's or FAHPC's. The income and expense numbers were capitalized at either 11 or 12 percent depending on whether the project will be subsidized. The repairs, sales price, cash, mortgage amounts and interest rates represent FAHPC's offer.

This analysis was compiled before full information was received from either HUD field staff or FAHPC. As such, it represents HUD's initial attempt to analyze whether this offer was in the best interests of the government. Further analyses represent refinements of this first analysis.

a/ These estimates represent FAHPC's offer of $4.9 million cash at closing to be disbursed as follows: (1) $800,000 directly for repairs to University Towers, and (2) $3.55 million to HUD in escrow for repairs of other projects. This leaves net cash to HUD of $500,000. (5

Table V. FAHPC Offer (2/1/82)

	HUD estimates based on FAHPC income and expense estimates capitalized at 11.5%						
Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing Net to HUD	1st Mort. Int. Rate (%)	2nd Mort. Int. Rate (%)
Mt. Prospect (106 units)	$1	...	$1	$500,000	$500,000	...	...
Park Towers (109 units)	2,689,276	...	2,689,276	2,000,000	2,000,000	...	...
Sherwood Village (203 units)	3,072,905	$850,000	2,222,905	2,550,000	100,000	$2,450,000 11.5%	$850,000 2.5%
Gregory III (200 units)	2,369,832	750,000	1,619,832	2,230,000	650,000	1,580,000 11.5%	750,000 2.5%
University Towers (168 units)	1,880,547	800,000	1,080,547	700,000	1,500,000	...	...
Evergreen Apts. (176 units)	1,935,604	350,000	1,585,604	1,750,000	100,000	1,650,000 11.5%	350,000 2.5%
Surrey/Carlton (184 units)	2,511,385	1,592,800	918,585	1,170,000	50,000	1,120,000 11.5%	1,600,000 2.5%
TOTALS	$14,459,530	$4,342,800	$10,116,750	$10,900,000	$4,900,000 a/ 550,000	$6,800,000 11.5%	$3,550,000 2.5%

This analysis shows estimates of value based on FAHPC's estimates of income and expenses. Net income is capitalized at an 11 1/2 percent interest rate to determine value. Mt. Prospect and Park Towers estimates of value are based on HUD numbers since FAHPC did not submit income and expense estimates on those two projects.

a/ These estimates represent FAHPC's offer of $4.9 million cash at closing to be disbursed as follows: (1) $800,000 directly for repairs to University Towers, and (2) $3.55 million to HUD in escrow for repairs of other projects. This leaves net cash to HUD of $550,000.

Table VI. Current HUD Program

Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing Net to HUD	1st Mort. Int. Rate (%)	2nd Mort. Int. Rate (%)
Mt. Prospect (106 units)	$1	...	$1	$ 500,000*	$100,000	$ 400,000 11%	...
Park Towers (109 units)	2,072,000	$108,000	1,964,000	1,964,000*	306,400	1,657,600 11%	...
Sherwood Village (203 units)	2,592,700	1,236,000	830,200	830,200	...	830,200 12%	...
Gregory III (200 units)	1,902,400	1,163,120	739,280	739,280	...	739,280 12%	...
University Towers (168 units)	1,939,100	800,000	1,139,100	1,139,100	...	1,139,100 12%	...
Evergreen Apts. (176 units)	1,809,600	129,600	1,680,000	1,680,000	232,300	1,447,700 12%	...
Surrey/Carlton (184 units)	2,540,550	1,600,000	649,325	649,325	...	649,325 12%	...
TOTALS	$12,856,351	$5,036,720	$7,001,906	$7,501,905	$638,700 a/	$6,863,205 12%	...

This analysis summarizes the value and sales estimates under HUD's current program of offering purchase money mortgages (PMMs) for 80 percent of value at an 11 or 12 percent interest rate. Under this program the purchaser is required to do all repairs. The numbers are extrapolated from HUD Field Office estimates of income, expenses and repairs. The as-is value of the property represents repaired value less repairs less anticipated operating deficit. In the case of Mt. Prospect, where income will not support expenses, HUD estimates it can sell the property for at least $500,000 all cash.

*Even if higher estimates of value based on potential condominium conversion are used ($1,250,000 for Mt. Prospect and $2,300,000 for Park Towers) the total sale price will still be substantially less than the FAHPC offer.

a/ Represents total amount of cash at closing to HUD.

Table VII. HUD Interim Program

Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing Net to HUD	1st Mort. Int. Rate (%)	2nd Mort. Int. Rate (%)
Mt. Prospect (106 units)	$1	...	$1	$500,000	$ 50,000	$450,000 16.5%	...
Park Towers (109 units)	1,456,000	$ 108,000	1,348,000	1,348,000	37,600	1,310,400 16.5%	...
Sherwood Village (203 units)	1,576,272	1,236,000	340,272	340,272	340,272	...	...
Gregory III (200 units)	1,156,877	1,163,120	1	100,000	100,000	...	...
University Towers (168 units)	1,178,914	800,000	378,914	378,914	378,914	...	...
Evergreen Apts. (176 units)	1,346,700	129,600	1,217,100	1,217,100	5,100	1,212,000 16.5%	...
Surrey/Carlton (184 units)	1,544,576	1,600,000	1	NSM	1	...	...
TOTALS	$8,259,340	$5,036,720	$3,284,289	$3,884,286	$911,887a/	$2,972,400	...

This analysis represents the interim program HUD in operation between November 1981 and February 1982 under which HUD was originally negotiating with FAHPC. It represents a program where purchasers are required to do repairs with HUD offering purchase money mortgages for 90 percent of value at 16 1/2 percent interest rates. The estimates of value, for projects where HUD would not offer a PMM, are based on borrowing money for repairs at approximately 20 percent (estimate of market rate). This scenario shows that several of the projects have a "negative" value because repairs, at the market rate financing, exceed the repaired value of the property. NSM means no stated minimum price.

a/Represents total amount of cash at closing to HUD

Table VIII. Old HUD Program

Projects	Repaired Value	Completed Repairs	As-is Value	Sales Price	Cash at closing ---------- Net to HUD	1st Mort. --------- Int. Rate (%)	2nd Mort. --------- Int. Rate (%)
Mt. Prospect (106 units)	$1	...	$1	$ 500,000	$ 50,000	$450,000 16.5%	...
Park Towers (109 units)	1,456,000*	$ 108,000	1,456,000	1,456,000	145,600	1,310,400 16.5%	...
Sherwood Village (203 units)	1,929,500	1,236,000	1,929,500	1,929,500	192,950	1,736,550 16.5%	...
Gregory III (200 units)	1,415,800	1,163,120	1,415,800	1,415,800	141,580	1,274,220 16.5%	...
University Towers (168 units)	1,443,100	800,000	1,443,100	1,443,100	144,310	1,298,790 16.5%	...
Evergreen Apts. (176 units)	1,346,700	129,600	1,346,700	1,346,700	134,670	1,212,030 16.5%	...
Surrey/Carlton (184 units)	1,890,700	1,600,000	1,890,700	1,890,700	189,070	1,701,630 16.5%	...
TOTALS	$9,481,801	5,036,720	$9,481,801	$9,981,800	$998,180a/	$8,983,620 16.5%	...
			Less Repairs	$5,036,720			
			Less Holding Costs	8,229,600			
			Net Price	<$3,284,520>			

This analysis represents how HUD sold properties under the previous disposition program. HUD would repair the properties before selling them, and offer them with a PMM for 90 percent of value at the current FHA interest rate (16 1/2 percent). This scenario assumes HUD has already done approximately $5.0 million in repairs. Subtracting the repairs from the sales price leaves HUD with a real price of approximately $4.8 million. The $4.8 million price does not include the cost to HUD of holding the projects during the terms of repairs (approximately 30 months, $8.2 million).

*The value of Park Towers may be higher due to potential for conversion to condominiums.

a/Represents total amount of cash at closing to HUD.

Table IX. Field Office Property Disposition Committee Recommendations

Projects	Repaired Value	Repairs	As-is Value	Sales Price	Cash at closing Net to HUD	1st Mort. Int. Rate (%)	2nd Mort. Int. Rate (%)
Mt. Prospect (106 units)	$1	...	$1	$1,000,000 a/	$1,000,000	...	...
Park Towers (109 units)	1,726,000	$ 107,105	1,618,895	1,618,895	161,890	$1,457,005 16.5%	...
Sherwood Village (203 units)	2,592,700	1,236,000	830,200 b/	830,200	...	830,200 12%	...
Gregory III (200 units)	1,378,000 c/	1,163,120	215,000	215,000	215,000	...	...
University Towers (168 units)	1,404,417	800,000	604,417	604,417	604,417	...	...
Evergreen Apts. (176 units)	1,346,800	129,600	1,217,200	1,346,800	134,600	1,212,200 16.5%	...
Surrey/Carlton (184 units)	2,540,000	1,600,000	649,325	649,325	...	649,325 12%	...
TOTALS	$10,987,918	$5,035,825	$5,135,038	$6,264,637	$2,115,907 d/	$4,148,730	...

This analysis represents the actual sales recommendations submitted by HUD Field Office staff. As shown, the recommendations do not represent a consistent sales policy since they offer price and financing based on different estimates of value and different interest rates.

a/ The Field Office estimates that Mt. Prospect could be sold for approximately $1,000,000.
b/ As-is value reflects estimated operating deficit of $526,500.
c/ Per outstanding instructions, rounded to the nearest $1,000.
d/ Represents total amount of cash at closing to HUD.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER 031- 00207
SECTION 207

PROJECT STATUS (Check applicable box)
☐ Insured ☐ HUD-Held ☑ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☑ Routine ☐ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
Mt. Prospect Towers
390 Mt. Prospect Avenue
Newark, New Jersey 07102

INSTRUCTIONS

1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check.
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.

TCD = Target Completion Date.

MANAGEMENT AGENT NAME
Brustein Agency
Philip Cantor

RESIDENT MANAGER NAME
Eleanor Pacciarella

DATE HIRED / /

Page 1 of pages

DATE OF INSPECTION 5-15-81

TIME SPENT

PREPARATION	TRAVEL
Hours	Hours
INSPECTION	REPORT PREPARATION
Hours	Hours

TOTAL TIME Hours

TYPE	TOTAL	NO. INSPECTED
Building	1	1
Total Units	106	10
Vacancies	—	—
Sec. 8 Units	—	—

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations	✓				
2. Roofs, flashing, vents	✓				
3. Gutters, downspouts, splashblocks	✓				
4. Drives, parking lots, paving, curbs	✓				
5. Walks, steps, guardrails	✓				
6. Fences, walls, gates	✓				
7. Porches, balconies, fire escapes	✓				
8. Doors, windows, screens	✓				
9. Garage and carports	✓				
10. Lawns and plantings	✓				
11. Sprinkler and drainage system	✓				
12. Exterior lighting	✓				
13. Exterior painting	✓				
14. Underground gas, water, sewage	✓				
15. Security systems	✓				
16.					
17. TOTAL EXTERIOR (Add items 1 thru 16)				—	—

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation	✓				
19. Caulking and weatherstripping	✓				
20. Storm doors and windows	✓				
21. Water saver devices	✓				
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				—	—

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles	✓				
25. Stairs, walkways, community spaces	✓				
26. Cabinets, doors, closets, hardware	✓				
27. Painting	✓				
28. Curtains and shades	✓				
29. Refrigerators and ranges	✓				
30. Garbage disposal & exhaust fans	✓				
31. Compactors & incinerators	✓				
32. Electrical fixtures and systems	✓				
33. Plumbing fixtures and systems	✓				
34. Heating and air conditioning	✓				
35. Hot water system, boiler room	✓				
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)					

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment	✓				
39. Laundry rooms, office	✓				
40. Storage, utility buildings	✓				
41. Elevators	✓				
42. Project signs	✓				
43. Swimming pools	✓				
44. Exterminating	✓				
45. Fire and Safety Hazards		✓		30,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				30,000	

48. TOTAL COST (Add items 17, 23, 37 and 47) .... $

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☑ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY
NAME Elizabeth Jablonski
TITLE Realty Specialist
DATE 10-20-81

APPROVED BY
NAME John Rivera
TITLE Chief, P.D. Br
DATE 10/22/81

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
45	Install electric smoke alarms to comply with State Code.	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER: 031-55017
SECTION: 221 d 3

PROJECT STATUS (Check applicable box)
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
GREGORY PARK III
135 MONTGOMERY STREET
JERSEY CITY, N. J.

INSTRUCTIONS

1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check
A – Acceptable
M – Maintenance to be done within 1 year.
I – Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.

TCD – Target Completion Date.

MANAGEMENT AGENT NAME: THE BRUSKIN Agency
RESIDENT MANAGER NAME: MARION MILLER
DATE HIRED / /

Page 1 of pages
DATE OF INSPECTION: 1-2-82

TIME SPENT	
PREPARATION	TRAVEL
8 Hours	1 Hours
INSPECTION	REPORT PREPARATION
16 Hours	5 Hours

TOTAL TIME 30 Hours

TYPE	TOTAL	NO. INSPECTED
Buildings	1	1
Total Units	200	45
Vacancies	0	0
Sec. 8 Units	148	34

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations			X	775,000	
2. Roofs, flashing, vents					
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs		X		445	
5. Walks, steps, guardrails					
6. Fences, walls, gates		X		4,440	
7. Porches, balconies, fire escapes					
8. Doors, windows, screens					
9. Garage and carports					
10. Lawns and plantings		X		392	
11. Sprinkler and drainage system					
12. Exterior lighting					
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems					
16.					
17. TOTAL EXTERIOR (Add items 1 thru 16)				780,277	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping					
20. Storm doors and windows		X		340,000	
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				340,000	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles					
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware					
27. Painting (COMMON AREAS)				600	1982
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning					
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)				600	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment		X		2,243	
39. Laundry rooms, office					
40. Storage, utility buildings					
41. Elevators					
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards (AC SMOKE DETECTORS)			X	40,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				42,243	

48. TOTAL COST (Add items 17, 23, 37 and 47) .... $ 1,163,120

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☒ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME Elizabeth Jablonski	NAME John
TITLE Realty Specialist	TITLE Chief, R.D.B.
DATE 1-2-82	DATE 1-14-82

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
1	REPAIR EXTERIOR BRICK VENEER (SEE A+E REPORT).	
4	REPAIR MACADAM + CONCRETE (SEE A+E REPORT).	
6	REPAIR + PAINT fence AROUND building, Replace FRONT Low fence.	
10	Replace TWO TREES Remove STUMPS.	
20	Replace existing windows with insulated windows.	
38	REPAIR + Replace benches AROUND building + playground AREA. Replace + REPAIR playground equipment, PATCH ASPHALT holes IN playground.	
45	INSTALL AC powered Smoke DETECTORS	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER 031-30047
SECTION

PROJECT STATUS (Check applicable box)
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
UNIVERSITY TOWERS
100 MEMORIAL PARKWAY
NEW BRUNSWICK, N.J.
08901

INSTRUCTIONS
1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check.
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
TCD = Target Completion Date.

Page 1 of 1 pages

DATE OF INSPECTION 1-13-82

TIME SPENT
PREPARATION 1 Hours
TRAVEL 1 Hours
INSPECTION 8 Hours
REPORT PREPARATION 4 Hours
TOTAL TIME 14 Hours

MANAGEMENT AGENT NAME Bruskin Agency

RESIDENT MANAGER NAME VICKIE CONCEPCION

DATE HIRED / /

TYPE	TOTAL	NO. INSPECTED
Buildings	1	1
Total Units	16??2	6
Vacancies	0	0
Sec. 8 Units	78	4

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations			X	260,000	82
2. Roofs, flashing, vents					
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs			X	5,000	82
5. Walks, steps, guardrails			X	10,000	82
6. Fences, walls, gates					
7. Porches, balconies, fire escapes					
8. Doors, windows, screens			X	40,000	82
9. Garage and carports					
10. Lawns and plantings					
11. Sprinkler and drainage system					
12. Exterior lighting			X	5000	82
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems			X	10,000	82
16.				[redacted]	
17. TOTAL EXTERIOR (Add items 1 thru 16)				330,000	?

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping			X	40,000	1982
20. Storm doors and windows					
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)				40,000	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tile			X	50,000	82
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware		X		35,000	82
27. Painting		X		15,000	82
28. Curtains and shades		X		5,000	82
29. Refrigerators and ranges		X		10,000	82
30. Garbage disposal & exhaust fans					
31. Compactors & Incinerators			X	160,000	82
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems		X		35,000	82
34. Heating and air conditioning		/	X	20,000	82
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR (Add items 24 thru 36)				330,000	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment					
39. Laundry rooms, office					
40. Storage, utility buildings					
41. Elevators			X	75,000	
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards			X	25,000	
46.					
47. TOTAL MISC. (Add items 38 thru 46)				100,000	

48. TOTAL COST (Add items 17, 23, 37 and 47) .... $ 800,000

49. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☒ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY
NAME
TITLE Realty Specialist
DATE 1/28/82

APPROVED BY
NAME John Maus
TITLE Chief, Property Disp Br
DATE 1-26-82

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on overall rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
1	Pointing walls, sealing, Clean weepholes, Repair Balconies Brick	
	Spandrel Patching	
4	Replace/Patch Asphalt Misc	
19	Concrete Patch walks, slabs, Retaining walls	
9	Caulk and weather strip windows	
12	Exit Lights, Misc	
15	Repair intercom, Install security Areas, etc	
8	Repair/replacement Doors, Glass, Repair walls	
24	Replace damaged Flooring throughout as needed	
26	" Kitchen Cabinets and Counter tops	
27	Painting + Decorating public Areas	
28	Replace old and damaged Venetian Blinds	
29	" " " " Appliances	
31	overhaul incinerator	
33	Replace bath tiles, tubs and misc plumbing	
34	" heat controls top floors	
41	overhaul elevators	
45	Install AC Powered Smoke detectors	

PROPERTY DISPOSITION PROGRAM

REPORT OF PHYSICAL CONDITION AND RECOMMENDATIONS FOR EXPENDITURES

PROJECT NAME: SHERWOOD VILLAGE	PROJECT NO: 012-30337/45
ADDRESS: 99-11 57th Avenue, 55-15 99th Street & 60-15 Calloway	
	EXPENDITURES RECOMMENDED FOR: ☐ Protection and Maintenance ☒ Upgrading

	ITEM(S)	REPAIRS RECOMMENDED	$ AMOUNT
EXTERIOR	1. Foundation and Retaining Walls		$
	2. Exterior Walls		
	3. Caulking and Weatherstrip	Windows, Doors & Baths	25,000
	4. Roofing, Guttering and Downspouts	New roofs, cap flashings etc.	300,000
	5. Trim and Millwork		
	6. Windows, Screens and Storm Doors	Storm windows & Repair of ext. windows	100,000
	7. Porches, Steps and Fire Escapes		
	8. Balconies and Terraces		
	9. Awnings and Canopies		
	10. Fences and Gates	Fences & Gates repair & replace	10,000
	11. Walks, Driveways and Parking Lots	Repair sidewalks	10,000
	12. Garages and Carports		
	13. Storage, Utility and Recreation Bldgs.		
	14. Landscaping and Exterior Lighting		
	15. Sewer and Drainage		
INTERIOR	16. Entrance Lobby	Redesign	20,000
	17. Basement		
	18. Floors	6 apts damages by sewer back-up	20,000
	19. Carpeting		
	20. Stairs and Hallways		
	21. Base, Trim and Millwork		
	22. Cabinets, Closets, Doors and Hardware	Sliding closet doors	20,000
	23. Walls and Decorating		
	24. Glazing, Shades and Blinds		
	25. Ranges	New	60,000
	26. Refrigerators	New	80,000
	27. Wiring and Light Fixtures		
	28. Plumbing and Plumbing Fixtures	Kitchen sinks, bathroom wash basin & vanities	80,000
	29. Garbage Disposals		
	30. Exhaust Fans	Roof fans - Overhaul & repair	3,000
	31. Heating	Overhaul boilers, burners, pumps & motors	30,000
	32. Air Conditioning		
	33. Hot Water System		
	34. Paint	Paint all apartments, public spaces, firescapes	180,000
MISCELLANEOUS	35. Incinerators and Trash Compactors	Overhaul & Upgrade 3 elevators	40,000
	36. Elevators		
	37. Laundry Rooms		
	38. TV Antenna System		
	39. Swimming Pools		
	40. Project Signs		
	41. Playgrounds and Equipment	Remove playground equipment 7 landscape	6,000
	42.		
	43. Mail box	Vandal Resistance Mail Box	20,000
	44.		
	45.	Subtotal	1,003,000

(USE REVERSE IF ADDITIONAL SPACE IS REQUIRED)

Add 20% for Gen Req, overhead & profit x1.2 TOTAL $1,236,000

PREPARED BY:		REVIEWED AND ACCEPTED BY:	
2/10/81	Y.M. Sousa Gen. Engr.	2/10/81	Robert E. Porter
(Date)	(Signature and Title)	(Date)	(Signature and Title)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER 017-00101
SECTION 207

PROJECT STATUS *(Check applicable box)*
☐ Insured ☐ HUD-Held ☒ HUD-Owned

PURPOSE OF REPORT *(Check applicable boxes)*
a. ☐ Initial ☐ Routine ☒ Special
b. ☒ Maintenance ☒ Upgrading ☒ Protection

PROJECT NAME AND ADDRESS
Park Towers Apartments
120 Huntington Tpke.
Bridgeport, CT

INSTRUCTIONS
1. For each item inspected, check block A, M, or I. Fully describe corrections needed on each M and I items check
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan specialist and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
TCD = Target Completion Date.

MANAGEMENT AGENT NAME
Hitchell Realty, Inc.

RESIDENT MANAGER NAME
James Loyd
DATE HIRED / /

Page 1 of 1 pages
DATE OF INSPECTION

TIME SPENT	
PREPARATION	TRAVEL
Hours	Hours
INSPECTION	REPORT PREPARATION
Hours	Hours

TOTAL TIME Hours

TYPE	TOTAL	NO. INSPECTED
Buildings		
Total Units		
Vacancies		
Sec. 8 Units		

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations					
2. Roofs, flashing, vents	X			1,475	
3. Gutters, downspouts, splashblocks					
4. Drives, parking lots, paving, curbs					
5. Walks, steps, guardrails					
6. Fences, walls, gates	X	X		20,000	6.30.82
7. Porches, balconies, fire escapes					
8. Doors, windows, screens					
9. Garage and carports					
10. Lawns and plantings	X			3,500	
11. Sprinkler and drainage system					
12. Exterior lighting	X			5,210	
13. Exterior painting					
14. Underground gas, water, sewage					
15. Security systems		X		20,500	6.30.82
16.					
17. TOTAL EXTERIOR *(Add items 1 thru 16)*				50,685	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation	X			92,485	
19. Caulking and weatherstripping	X			2,875	
20. Storm doors and windows		X		40,000	12.31.81
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY *(Add items 18 thru 22)*				135,360	

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles		X		50,550	3.31.82
25. Stairs, walkways, community spaces					
26. Cabinets, doors, closets, hardware					
27. Painting		X		56,565	6.30.82
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning					
35. Hot water system, boiler room					
36.					
37. TOTAL INTERIOR *(Add items 24 thru 36)*				107,115	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
38. Benches, play area and equipment					
39. Laundry rooms, office	X			1,200	
40. Storage, utility buildings					
41. Elevators					
42. Project signs					
43. Swimming pools					
44. Exterminating					
45. Fire and Safety Hazards	X			850	
46.					
47. TOTAL MISC. *(Add items 38 thru 46)*				2,050	

48. TOTAL COST *(Add items 17, 23, 37 and 47)* .... $ 295,210

49. EVALUATION OF MAINTENANCE OPERATION *(Check one and elaborate in Comments Section below)*
☒ Superior ☐ Below Average
☐ Satisfactory ☐ Unsatisfactory

INSPECTION MADE BY
NAME
TITLE Realty Specialist
DATE 9/2/81

APPROVED BY
NAME
TITLE
DATE

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 49 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
6	Retaining wall to be installed along side of bldg. Once Architect is hired, plans will be drawn and item put out for bid.	
15	Security cameras to be installed in lobby and rear of bldg to delete cost of security guards. Once specs received from proj mgr, will be put out for bid	
20	Storm sashes have been under 8a processing for over 1 yr. Cancelled on 9/18/81. Contract will now be put out to formal bid.	
24	Approximately 70 carpets to be replaced. When specs recd from proj mgr, will be put out to bid.	
27	Contract has been awarded - a minimum of 50 apts will be painted.	

REPORT OF PHYSICAL CONDITION AND RECOMMENDATIONS FOR EXPENDITURES

PROJECT NAME: SURREY - CARLTON COLONY APARTMENTS

PROJECT NO: 012-44050/SS110

ADDRESS: 1 -27 SLINN AVENUE, SPRING VALLEY, NEW YORK

EXPENDITURES RECOMMENDED FOR:

☐ Protection and Maintenance
☒ Upgrading

	ITEMS	REPAIRS RECOMMENDED	$ AMOUNT
EXTERIOR	1. Foundation and Retaining Walls	Repair all ext. walls and steps	$ 15,000
	2. Exterior Walls	Point & repair all ext. walls of bldgs.	3,000
	3. Caulking and Weatherstrip	100% ext. openings	25,000
	4. Roofing, Guttering and Downspouts	Repair roofing, gutters, downspouts clean all lines (use 5" C.I.)	30,000
	5. Trim and Millwork Doors	Repair all ext. door & frames (solid door)	50,000
	6. Windows, Screens and Storm Doors	Reset 100% Al, window sills, replace 10% alum windows, install 50% new Al storm windows	100,000
	7. Porches, Steps and Fire Escapes	Repair, replace canopies & steps all bldgs. sand, scrape and paint all fire escapes	50,000
	8. Balconies and Terraces		
	9. Awnings and Canopies		
	10. Fences and Gates	Repair dam-fences install new where req'd	8,000
	11. Walks, Driveways and Parking Lots	Resurface all parking lots & driveways provide positive drainage	60,000
	12. Garages and Carports		
	13. Storage, Utility and Recreation Bldgs.		
	14. Landscaping and Exterior Lighting	Repair all ext. lighting & benches	25,000
	15. Sewer and Drainage	Repair all\drainage & sewer lines and lift station - build new M.H	80,000
	16.		
INTERIOR	17. Basement		
	18. Floors	Repair all damaged flooring & sub-floor	20,000
	19. Carpeting		
	20. Stairs and Hallways	Repair plaster, entry doors, paint stairwell	60,000
	21. Base, Trim and Millwork	Repair walls, finish carpentry	20,000
	22. Cabinets, Closets, Doors and Hardware	Replace 90% kithen cabinets 90% counter tops w/sinks 50% closet doors	130,000
	23. Walls and Decorating	Repair walls-plaster-& paint all apts. 100%(140)	70,000
	24. Glazing, Shades and Blinds		
	25. Ranges	60% replacement	30,000
	26. Refrigerators	60% replacement	50,000
	27. Wiring and Light Fixtures	Re-wire 90 apts with copper wire	50,000
	28. Plumbing and Plumbing Fixtures	Repair all plumbing lines to bath, & kitchen. Install valves in each apt.	10,000
	29. Garbage Disposals	Provide enclosures for dumpsters	5,000
	30. Exhaust Fans	Replace damaged roof fans	20,000
	31. Heating	Repair & balance all heating systems	
	32. ~~Air-Conditioning~~	Repair damaged hot H_2O Exchangers	130,000
	33. ~~Hot Water System~~	Insulate all piping	
	34. Fire damaged Apts.	Completely repair (44) damaged apts.	220,000
MISCELLANEOUS	35. Incinerators and Trash Compactors		
	36. Elevators		
	37. Laundry Rooms		
	38. TV Antenna System		
	39. Swimming Pools		
	40. Project Signs		
	41. Playgrounds and Equipment	Replace swings, slides, bars	8,000
	42. Misc. Repairs	Plumbing & other	5,000
	43. Roof Insulation	Increase roof ins. to 6"	70,000
	44.		1,344,000
	45.	20% GR/OH/PR	

(USE REVERSE IF ADDITIONAL SPACE IS REQUIRED)

TOTAL $1,592,800

PREPARED BY:		REVIEWED AND ACCEPTED BY:	
12/14/81	Y.H. Sawan Gen Engr.	12/14/81	Robert E. Porter /s/ Sidney Schwartz
(Date)	(Signature and Title)	(Date)	(Signature and Title)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER

REPORT OF PHYSICAL CONDITION AND ESTIMATE OF REPAIR COSTS

PROJECT NUMBER: 017-44169
SECTION: 236

PROJECT STATUS (Check applicable boxes)
☐ Insured ☐ HUD-Held ☐ Public Hsg. ☐ Indian ☒ HUD-Owned ☐ Owned ☐ Leased ☐ Homeownership

PURPOSE OF REPORT (Check applicable boxes)
a. ☐ Initial ☐ Routine ☒ Special
b. ☐ Maintenance ☐ Upgrading ☐ Protection

PROJECT NAME AND ADDRESS
Evergreen Manor
Bridgeport, CT

PUBLIC HOUSING DATA
End of initial operating period (EIOP) ____________
Date of full availability (DOFA) ____________
NO. OF PROJ. EMPLOYEES

INSTRUCTIONS
1. For each item listed, check block A, M, or I. Fully describe corrections needed on each M and I items check.
A = Acceptable
M = Maintenance to be done within 1 year.
I = Items requiring immediate attention.
2. After discussing items with loan spec., HMD, and owner or management agent, indicate target completion date agreed upon and enter the date in the space provided in the column entitled TCD.
3. TCD = Target Completion Date Prepare in accordance with Handbook 4350.1, Chapter 6, or Handbook HM 7460.1 supp. 1, Chapter 8 as appropriate

Page 1 of 1 pages

DATE OF INSPECTION

TIME SPENT	
PREPARATION	TRAVEL
Hours	Hours
INSPECTION	REPORT PREPARATION
Hours	Hours
TOTAL TIME	Hours

MANAGEMENT AGENT AND/OR PHA NAME
Mitchell Realty, Inc.

RESIDENT MANAGER NAME
Carlos Abreu-Geigel

DATE HIRED 12/ 12/ 80

TYPE	TOTAL	NO. INSPECTED
Buildings		
Total Units		
Vacancies		
Inc. Units		

EXTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
1. Exterior walls and foundations	x			63,496	
2. Roofs, flashing, vents, chimneys			x	99,385	4.82
3. Gutters, downspouts, splashblocks			x	39,695	2.82
4. Drives, parking lots, paving, curbs		x		92,000	7.82
5. Walks, steps, guardrails					
6. Fences, walls, gates					
7. Porches, balconies, fire escapes	x			4,600	
8. Doors, windows, screens	x			186,912	
9. Garage and carports					
10. Lawns and plantings					
11. Sprinkler and drainage system			x	23,500	4.82
12. Exterior lighting & distribution sys.	x			16,239	
13. Exterior painting			x	9,350	4.82
14. Underground gas, water, sewage					
15. Security systems					
16. Attic Vents		x		12,100	7.82
17. TOTAL EXTERIOR (Add items 1 thru 16)				547,277	

ENERGY EFFICIENCY ITEMS INSP.	A	M	I	COST*	TCD
18. Insulation					
19. Caulking and weatherstripping					
20. Storm doors and windows					
21. Water saver devices					
22.					
23. TOTAL ENERGY EFFICIENCY (Add items 18 thru 22)					

INTERIOR ITEMS INSPECTED	A	M	I	COST*	TCD
24. Floors, carpets, tiles					
25. Stairs, hallways, community spaces		x		25,500	7.82
26. Cabinets, doors, closets, hardware					
27. Painting, condition-walls & ceilings					
28. Curtains and shades					
29. Refrigerators and ranges					
30. Garbage disposal & exhaust fans					
31. Compactors & incinerators					
32. Electrical fixtures and systems					
33. Plumbing fixtures and systems					
34. Heating and air conditioning	x			141,372	
35. Hot water system, boiler room					
36. Resident care of unit					
37.					
38. TOTAL INTERIOR (Add items 24 thru 37)				166,872	

MISCELLANEOUS ITEMS INSPECTED	A	M	I	COST*	TCD
39. Benches, play area and equipment					
40. Laundry rooms, office					
41. Storage, utility buildings					
42. Elevators					
43. Project signs					
44. Swimming pools, spray pool					
45. Exterminating					
46. Fire and Safety Hazards	x			1,791	
47. Commercial areas					
48. HATV	x			9,900	
49. TOTAL MISC. (Add items 39 thru 48)				11,691	

50. TOTAL COST (Add items 17, 23, 38 and 49) .... $ 725,840

51. EVALUATION OF MAINTENANCE OPERATION (Check one and elaborate in Comments Section below)
☐ Superior ☐ Satisfactory ☐ Below Average ☐ Unsatisfactory

INSPECTION MADE BY	APPROVED BY
NAME	NAME Bernard M Cameron 2/3/82
TITLE Realty Specialist	TITLE Acting Chief Property Officer
DATE 1/26/82	DATE 1/26/82

OCCUPANCY
Seasonal ☐ YES ☒ NO
Transient ☐ YES ☒ NO
If "Yes", explain

SIGNIFICANT TRENDS
Neighborhood change ☐ YES ☒ NO
Management change ☐ YES ☒ NO
If "Yes", explain

Is there a community facility? ☑ YES ☐ NO
Is there a day care facility? ☐ YES ☒ NO

ITEM NO.	Describe required corrections on M and I items. Use Continuation Sheet (HUD-9822-A) as necessary. When elaborating on over-all rating given on Line 48 comment upon effectiveness of management systems, performance of personnel and adequacy of equipment and supplies.	DATE OF FOLLOW-UP INSPECTION
2,3,11,13	are HUD-awarded contracts. Completion date has been extended due to weather conditions.	
4,16,25	are items of repair which the purchaser will have to complete.	

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

MULTIFAMILY SALES PROGRAM

In determining the acceptability of bidders the Department of Housing and Urban Development is concerned with the experience and ability of the individuals comprising the ownership to provide management and operation. For this reason HUD will not knowingly accept the bid of those whose background or experience would indicate other than a reputation for sound and irreproachable business practices. The following affidavit is required.

AFFIDAVIT OF OWNERSHIP

Personally appeared this day before me, a Notary Public in and for

the   of

well known by me and known by me to be the affiant(s) subscribing hereto. First being duly sworn by me affiant(s) stated that: (1) this affidavit is given for the purpose of obtaining consideration by the Department of Housing and Urban Development of a bid for the purchase of certain real property offered by HUD, (2) said bid is executed by affiant(s) as the duly authorized representative(s) of the proposed owners, (3) the bid is made exclusively in behalf of the proposed owners named hereinafter and (4) the proposed ownership will be as follows:

Portion to be owned (if corporation, give number of shares or percentage of total)	Owner(s) Will Be (Give full name and address)

________________________ Affiant

________________________ Affiant

________________________ Affiant

WITNESS my hand and seal this   day of   19

____

FHA FORM NO. 2417
Rev. June 1963

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION

Form Approved
Budget Bureau No. 63-R0827

PERSONAL FINANCIAL AND CREDIT STATEMENT

Project Name ____________________ Number ____________

Location ____________________

Statement of ____________________ As of ____________ 19 ____

Address ____________________

ASSETS

Cash on hand in banks (Name of depository)	(Balance)	
	$	
		$
Accounts receivable	$	
Less: Doubtful Accounts		
Notes receivable	$	
Less: Doubtful Notes		
Stocks and Bonds - Market Value (Schedule A-reverse side)		
Other current assets (describe)		
	$	
Total Current Assets		$
Real Property - at cost* (Schedule B-reverse side)		
Machinery Equipment and Fixtures - at cost		
Life Insurance (Cash value less loans	$	
Other assets (describe):		
	$	
TOTAL ASSETS		$

LIABILITIES AND NET WORTH

Accounts payable		$
Notes payable		
Debts payable in less than one year (secured by mortgages on land and buildings)		
Debts payable in less than one year (secured by chattel mortgages or other liens on assets)		
Other current liabilities (describe)		
	$	
Total Current Liabilities		$
Debts payable in more than one year (secured by mortgages on land and buildings)		
Debts payable in more than one year (secured by chattel mortgages or other liens on		
Other liabilities (describe)		
	$	
TOTAL LIABILITIES		$
Net Worth		
TOTAL LIABILITIES AND NET WORTH		$

* Cost, including improvements, less depreciation.

Accounts and Notes Receivable:

Amounts, if any, due from partners (P), employees (E) or relatives (R), specify:

Type (P,E or R)	Name	Address	Amount
			$

Insurance:

Life (face value) ____________ $ ____________
Beneficiary ____________

Pledged Assets:

Type Pledged	Amount	Offsetting Liability

Delinquencies:

If any taxes, mortgage payments or other liabilities are past due, specify:

Type Liability	Amount	Circumstances

Notes Payable:

Payable to	Amount	Maturity Date

Legal Proceedings:

If any legal proceedings have been instituted by creditors or any unsatisfied judgments remain on record, give full details:

NOTE: If more space is required use separate sheet of paper writing on one side only.

(Over)

SCHEDULE A - STOCKS AND BONDS

Description	Cost	Current Market Value (As date of this Statement)	If Listed, Name Exchange
	$	$	

SCHEDULE B - REAL PROPERTY (INDICATE PRIVATE RESIDENCE, IF ANY)

Location and Description of Land and Buildings Owned	Age	Original Cost	Market Value	Assessed Value	Mortgaged For-	Insured For-
TOTALS						

Title:

The legal and equitable title to all pieces of the above-described real estate is solely in my name, except as follows:

Location of Real Property	Name of Title Holders

References:

Bank— ____________________

Trade— ____________________

I HEREBY CERTIFY that the foregoing figures and the statements contained herein, submitted by me for the purpose of obtaining mortgage insurance under the National Housing Act, are true and give a correct showing of my financial condition as of this date.

Signed this ____________ day of ____________, 19 ____

(Name) ____________________

WARNING

U.S. Criminal Code, Section 1010, Title 18, U.S.C., "Federal Housing Administration transactions", provides in part: "Whoever, for the purpose of . . . influencing in any way the action of such Administration . . . makes, passes, utters, or publishes any statement, knowing the same to be false, . . . shall be fined not more than $5,000 or imprisoned not more than two years, or both."

265357-P

HUD-Wash., D. C.

Form Approved
OMB 2502-0118

INSTRUCTIONS FOR COMPLETING THE PREVIOUS PARTICIPATION CERTIFICATE, FORM HUD-2530

(Effective January 1, 1981 for HUD Assisted Multifamily Housing Projects.)

PURPOSE

Form HUD-2530 must be completed and signed by all parties applying to become principal participants in HUD multifamily housing projects. The purpose of this form is to provide HUD with a certified report of all previous participation in HUD multifamily housing projects by those parties making application for additional participation in another HUD MFH project. This form must also be completed by those who have not previously participated in HUD MFH projects.

Before filing this form with the HUD Area or Service office where your project application will be processed, these instructions and the regulations that apply to this form should be read carefully. A copy of those regulations published at 24 CFR 200.210 to 200.245 can be obtained from the Multifamily Housing Representative at any HUD Area or Service office.

The information requested in this form is necessary in order for HUD to determine if you meet the standards established to ensure that all principal participants in HUD projects will honor their legal, financial and contractual obligations and are acceptable risks from the underwriting standpoint of an insurer, lender or governmental agency.

To assist in this determination, HUD requires that you certify your record of previous participation in HUD projects by completing and signing this form, before your project application or participation can be approved. HUD approval of your certification is a necessary precondition for your participation in the project and in the capacity that you propose.

If you do not file this certificate, do not furnish the information requested accurately, or do not meet established standards, you will not be approved and you will not be able to participate in the project as you had planned. Alternatively, approval may be withheld for up to 120 days if HUD feels more information is necessary to make an accurate decision.

Note that approval of your certification does not obligate HUD to approve your project application, and it does not satisfy all other HUD program requirements relative to your qualifications.

WHO MUST SIGN AND FILE FORM HUD-2530

Form HUD-2530 must be signed and filed by all principals and their affiliates who propose participating in the HUD project. Principals may all use, sign, and file on the same form or they may elect to file separate forms if that is more convenient. Late comers must file when they decide to join principals who have already filed.

Principals include all individuals, joint ventures, partnerships, corporations, trusts, nonprofit organizations or any other public or private entity that will participate in the proposed project as a sponsor, owner, prime contractor, turnkey developer, or managing agent. In addition, principals include packagers and consultants, defined as individuals or firms providing advisory services in connection with the financing or construction of a project, or with meeting any related HUD requirements. Architects and attorneys who have any interest in the project other than an arms length fee arrangement for professional services are also considered principals by HUD.

In the case of partnerships, all general partners regardless of their percentage interest and limited partners having a 25 percent or more interest in the partnership are considered principals. In the case of public or private corporations or governmental entities, principals include the president, vice president, secretary, treasurer and all other executive officers who are directly responsible to the board of directors, or any equivalent governing body, as well as all directors and each stockholder having a 10 percent or more interest in the corporation.

Affiliates are defined as any person or business concern that directly or indirectly controls the policy of a principal or has the power to do so. A holding or parent corporation would be an example of an affiliate if one of its subsidiaries was a principal.

EXCEPTION FOR CORPORATIONS - ALL PRINCIPALS AND AFFILIATES MUST PERSONALLY SIGN THE CERTIFICATE EXCEPT IN THE FOLLOWING SITUATION. WHEN A CORPORATION OR PUBLIC AGENCY IS A PRINCIPAL, ALL OF ITS OFFICERS, DIRECTORS, COMMISSIONERS, TRUSTEES AND STOCKHOLDERS WITH 10 PERCENT OR MORE OF THE COMMON (VOTING) STOCK NEED NOT SIGN PERSONALLY IF THEY ALL HAVE THE SAME RECORD TO REPORT. THE OFFICER WHO IS AUTHORIZED TO SIGN FOR THE CORPORATION OR AGENCY WILL LIST THE NAMES AND TITLE OF THOSE WHO ELECT NOT TO SIGN. HOWEVER, ANY PERSON WHO HAS A RECORD OF PARTICIPATION IN HUD PROJECTS THAT IS SEPARATE FROM THAT OF HIS OR HER ORGANIZATION MUST REPORT THAT ACTIVITY ON THIS FORM AND SIGN HIS OR HER NAME.

EXEMPTIONS - The names of the following parties do not need to be listed on Form HUD-2530: Public Housing Agencies, tenants, owners of less than five condominium or cooperative units and all others interests acquired by inheritance or court order.

WHERE AND WHEN FORM HUD-2530 MUST BE FILED

This form must be filed with the HUD Area or Service office where your project application will be processed at the same time you file your project application.

This form must be filed with applications for projects, or when otherwise required in the situations listed below:

- Projects to be financed with mortgages insured under the National Housing Act (FHA).
- Projects to be financed according to Section 202 of the Housing Act of 1959 (Elderly and Handicapped).
- Public Housing projects to be financed according to the United States Housing Act of 1937.
- Projects in which 20 percent or more of the units are to receive a subsidy as described in 24 CFR 200.213.
- Purchase of a project subject to a mortgage insured or held by the Secretary of HUD.
- Purchase of a Secretary-owned project.
- PROPOSED SUBSTITUTION OR ADDITION OF A PRINCIPAL OR PRINCIPAL PARTICIPATION IN A DIFFERENT CAPACITY FROM THAT PREVIOUSLY APPROVED FOR THE SAME PROJECT.
- PROPOSED ACQUISITION BY AN EXISTING LIMITED PARTNER OF ADDITIONAL INTEREST IN A PROJECT RESULTING IN A TOTAL INTEREST OF 25 PERCENT OR MORE, OR PROPOSED ACQUISITION BY A STOCKHOLDER OF ADDITIONAL INTEREST IN A PROJECT RESULTING IN A TOTAL INTEREST OF 10 PERCENT OR MORE.
- Projects with U.S.D.A., Farmers Home Administration, or with state or local government housing finance agencies that include rental assistance under Section 8 of the Housing Act of 1937. For projects of this type, Form HUD-2530 should be filed with the appropriate applications directly to those agencies.

REVIEW OF ADVERSE DETERMINATION

If approval of your participation in a HUD project is denied, withheld or conditionally granted on the basis of your record of previous participation, you will be notified by the field office. You may request reconsideration by the HUD Review Committee. Alternatively, you may request a hearing before a Hearing Officer. Either request must be made in writing within 30 days from your receipt of the notice of determination.

If you do request reconsideration by the Review Committee and the reconsideration results in an adverse determination, you may then request a hearing before a Hearing Officer. The Hearing Officer will issue a report to the Review Committee. You will be notified of the final ruling by certified mail.

INSTRUCTIONS FOR COMPLETING FORM HUD-2530

General Instructions - Either type or print neatly in ink when filling out this form. BE SURE TO MARK ANSWERS IN ALL BLOCKS OF THE FORM. IF THE FORM IS NOT FILLED OUT COMPLETELY, IT WILL DELAY APPROVAL OF YOUR APPLICATION.

If you need more space, attach extra sheets to the form. Be sure to type "Continued on Attachments" wherever appropriate on Form HUD-2530. Also, sign each additional page that is attached if it refers to you or your record.

Sign the certificate ONLY after you have read it carefully. File the original with the HUD Area or Service office that has jurisdiction over the project at the same time the initial project or other application forms are filed before your participation begins. You need to submit only one copy of Form HUD-2530 to HUD - additional copies are not necessary.

If you have many projects to list and expect to be applying frequently for participation in HUD projects, you should consider filing a Master List. See Master List instructions below under "Instructions for Completing Schedule A".

Any questions you have regarding the form or how to complete it can be answered by your HUD Area or Service office Multifamily Housing Representative.

Block Instructions

BLOCK 1 - Fill in the name of the agency to which you are applying, for example: HUD Area or Service office, Farmers Home Administration District office, or the name of a state or local housing finance agency. Below that, fill in the name of the city where the office is located.

BLOCK 2 - Fill in the name of the project, such as "Greenwood Apts." If the name has not yet been selected, write "Name unknown."

Below that, fill in the HUD contract or project identification number, the Farmers Home Administration project number, or the state or local housing finance agency project or contract number. Include ALL project or contract identification numbers that are relevant to the project.

Below that, fill in the name of the city in which the project is located, and the ZIP Code of the site location.

BLOCK 3 - Fill in the dollar amount requested in the proposed mortgage, or the annual amount of rental assistance requested.

BLOCK 4 - Fill in the number of apartment units proposed, such as "40 units." For hospital projects or nursing homes, fill in the number of beds proposed, such as "100 beds."

BLOCK 5 - If known, fill in the section of the Housing Act under which the application is filed. If unknown, write "Unknown."

BLOCK 6 - Check the appropriate box to indicate whether your application involves an EXISTING project, a REHABILITATION, or a PROPOSED new project.

BLOCK 7 - Alphabetically list the full names, last name first, of all principals (including corporations) and affiliates and their addresses. Definitions of all those who are considered principals and affiliates are given above in the section titled "Who Must Sign and File Form HUD-2530."

BLOCK 8 - Beside the name of each principal, fill in the role that each party listed will perform. The following is a list of the possible roles that the principals may perform: Sponsor, Owner, Prime Contractor, Turnkey Developer, Managing Agent, Packager, Consultant, General Partner, Limited Partner (include percentage), Executive Officer, Director, Trustee, or Major Stockholder.

Beside the name of each affiliate, write the name of the person or firm of affiliation, such as "Affiliate of Smith Construction Co."

INSTRUCTIONS FOR COMPLETING THE PREVIOUS PARTICIPATION CERTIFICATE – FORM HUD-2530 *(Continued)*

BLOCK 9 - Fill in the percentage ownership in the proposed project that each principal is expected to have. Beside the name of those parties who will not be owners, write "None."

BLOCK 10 - Fill in the social security or IRS employer number of every party listed, including affiliates.

INSTRUCTIONS FOR COMPLETING SCHEDULE A

No Previous Record - EVEN IF YOU HAVE NEVER PARTICIPATED IN A HUD PROJECT BEFORE, YOU MUST COMPLETE FORM HUD-2530. If you have no record of previous projects to list, fill in your name in Column 1 of Schedule A, and write across the form by your name - "No previous participation, first experience."

Frequent Filer's Master List System - If you expect to file this form frequently and you have a long list of previous projects to report on Schedule A, you should consider filing a Master List. By doing so, you will avoid having to list all your previous projects each time you file a new application.

To make a Master List, use Form HUD-2530. On page 1, in Block 1, you should fill in (in capital letters) the words "MASTER LIST." In Blocks 2 through 10 fill in "N.A." meaning Not Applicable.

In the box below the statement of certification, fill in the names of all parties who wish to file a Master List together (type or print neatly). Beside each name, every party must sign the form. In the box titled "Proposed Role," fill in "N.A." Also, fill in the date you sign the form and provide a telephone number where you can be reached during the day.

SCHEDULE A, ON THE REVERSE SIDE OF THE FORM MUST BE FILLED OUT COMPLETELY ACCORDING TO THE INSTRUCTIONS BELOW UNDER "All Others." CHECK TO BE SURE THAT SCHEDULE A IS COMPLETE, ACCURATE AND THE CERTIFICATE ON THE FRONT OF FORM 2530 IS PROPERLY DATED AND SIGNED, BECAUSE IT WILL SERVE AS A LEGAL RECORD OF YOUR PREVIOUS EXPERIENCE.

File one copy of the Master List with each HUD Area or Service office where you do business and mail one copy to

HUD-2530 MASTER LISTS
Previous Participation Branch - Housing
Department of Housing and Urban Development
451 Seventh Street, S. W.
Washington, D. C. 20410

Once you have filed a Master List, you do not need to complete Schedule A when you submit Form HUD-2530. Instead, write the name of the participant in Column 1 of Schedule A and beside that write - "See Master List on file." Also give the date that appears on the Master List that you submitted. Below that, report all changes and additions that have occurred since the date of the Master List. Be sure to include any mortgage defaults, assignments or foreclosures not listed previously.

> IF YOU HAVE WITHDRAWN FROM A PROJECT SINCE THE DATE THE MASTER LIST WAS FILED, BE SURE TO NAME THE PROJECT. GIVE THE PROJECT IDENTIFICATION NUMBER, THE MONTH AND YEAR YOUR PARTICIPATION BEGAN AND/OR ENDED.

All Others - Complete Schedule A on the reverse side of Form HUD-2530. All Multifamily Housing projects in which you have previously participated as a state or local government housing finance agencies MUST be listed.

In Column 2 of Schedule A, list all of your previous projects. In addition, list the project or contract identification of each previous project. THE PROJECT OR CONTRACT IDENTIFICATION OF ALL PREVIOUS PROJECTS MUST BE INCLUDED OR YOUR CERTIFICATION CANNOT BE PROCESSED. Also give the name of all projects, the cities in which they are located and the government agency (HUD, USDA-FmHA or state or local housing finance agency) that was involved. At the end of your list of projects in Column 2 of Schedule A, draw a straight line across the page to separate your record of projects from that of others signing this form who have a different record to report.

In Column 3 of Schedule A, list your role in all previous projects (a list of all possible roles is given in the instructions to Block 8). Give the month and year your participation began and/or ended because you do not want your record confused with possible problems caused by others for which you are not responsible.

In Column 4 of Schedule A, you must indicate all defaults, mortgage relief, assignments and foreclosures. Write "Default," "Assignment," or "Foreclosure" and give the date it occurred. If a default has been cured by payment, write the word "Cured" after the word default. If there were none of these on a project, write "None."

CERTIFICATION - AFTER YOU HAVE COMPLETED ALL OTHER PARTS OF FORM HUD-2530, INCLUDING SCHEDULE A, READ THE CERTIFICATION CAREFULLY. In the box below the statement of certification, fill in the name of all principals and affiliates (type or print neatly). Beside the name of each principal and affiliate, each party must sign the form, with the exception in some cases of individuals associated with a corporation (see "Exception for Corporations" in the section of the instructions titled "Who Must Sign and File Form HUD-2530"). Beside each signature, fill in the role of each party (the same as shown in Block 8). In addition, each person who signs the form should fill in the date that he or she signs, as well as providing a telephone number where he or she can be reached during business hours. By providing a telephone number where you can be reached, you will help to prevent any possible delay caused by mailing and processing time in the event HUD has any questions.

If you cannot certify and sign the certificate as it is printed because some statements do not correctly describe your record, do not become discouraged. On the face of the certificate use a pen and strike through those parts that differ with your record, then sign and certify to that part you permitted to remain and which does describe you or your record.

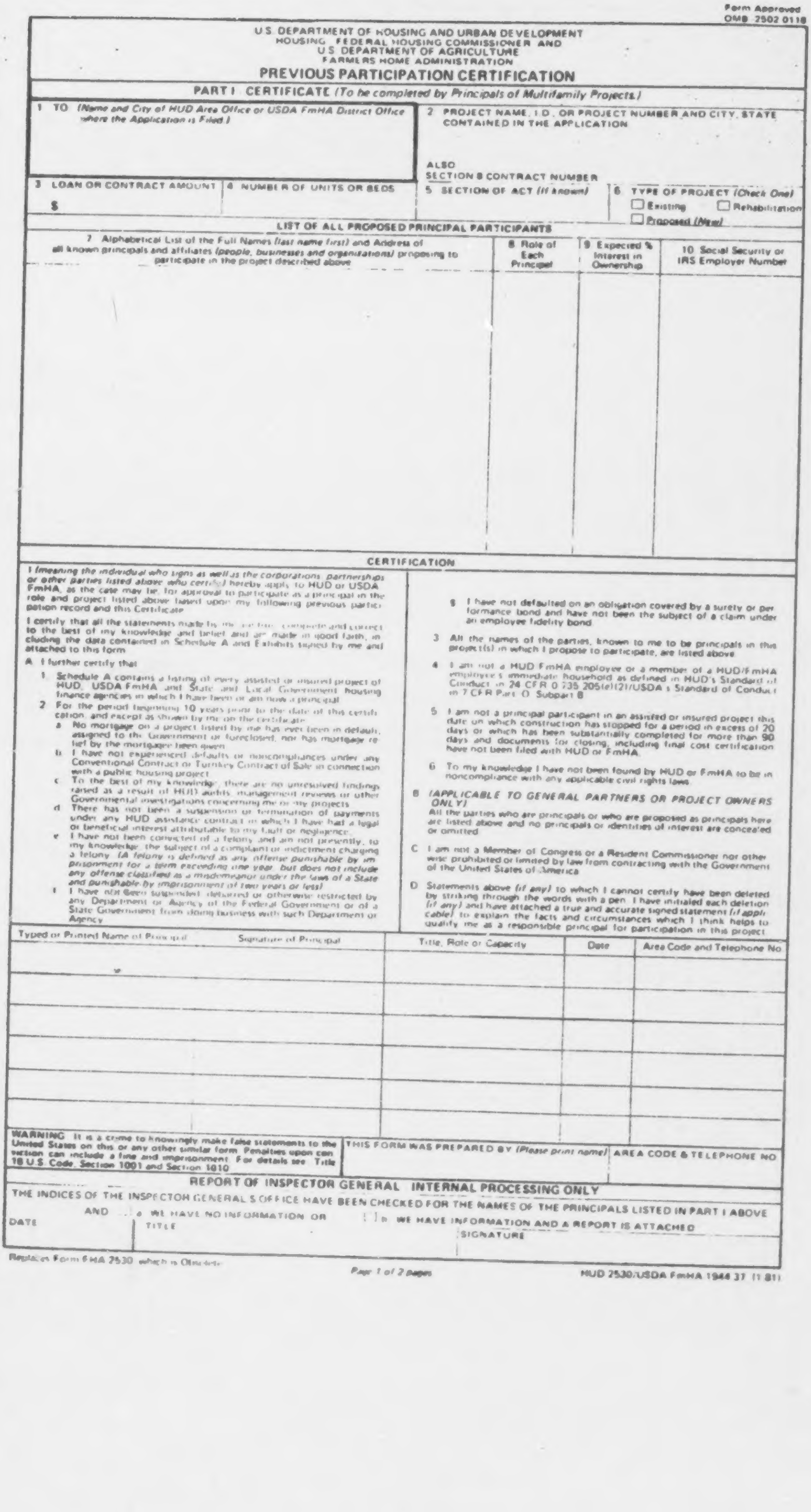
Attach a signed letter, note or explanation of the times you have struck out on the certification and report the facts of your correct record. Item A(2)(e) relates to felony convictions within the past 10 years. If you have been convicted of a felony within 10 years, strike out all of A(2)(e) on the certificate and attach your statement giving your explanation. A felony conviction will not cause your participation to be disapproved unless there is a criminal record or other evidence that your previous conduct or method of doing business has been such that your participation in the project would make it an unacceptable risk from the underwriting standpoint of an insurer, lender or governmental agency.

PRIVACY ACT INFORMATION AND AUTHORITY

Form HUD-2530 is authorized by law (42 USC 3535(d) and 42 USC 1701 et seq.) and 24 CFR 200.217. This information is collected to evaluate your record with respect to established standards of performance, responsibility and eligibility. HUD must have your social security number (SSN) for identification of your records. HUD may use your SSN for automated processing of your records and to make requests for information about you and your previous records with other public agencies and private sector sources.

Disclosure is not mandatory but you cannot be approved for participation unless you disclose the requested information.

Information HUD has about you may be given to other Federal, State and local agencies for checking on your previous participation record for business practices, for law violations and for other lawful purposes.



Form Approved
OMB 2502 0118

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING FEDERAL HOUSING COMMISSIONER AND
U.S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

PREVIOUS PARTICIPATION CERTIFICATION

PART I CERTIFICATE *(To be completed by Principals of Multifamily Projects.)*

1 TO *(Name and City of HUD Area Office or USDA FmHA District Office where the Application is Filed.)*

2 PROJECT NAME, I.D., OR PROJECT NUMBER AND CITY, STATE CONTAINED IN THE APPLICATION

ALSO
SECTION 8 CONTRACT NUMBER

3 LOAN OR CONTRACT AMOUNT $

4 NUMBER OF UNITS OR BEDS

5 SECTION OF ACT *(If known)*

6 TYPE OF PROJECT *(Check One)* ☐ Existing ☐ Rehabilitation ☐ Proposed *(New)*

LIST OF ALL PROPOSED PRINCIPAL PARTICIPANTS

7 Alphabetical List of the Full Names *(last name first)* and Address of all known principals and affiliates *(people, businesses and organizations)* proposing to participate in the project described above	8 Role of Each Principal	9 Expected % Interest in Ownership	10 Social Security or IRS Employer Number

CERTIFICATION

I *(meaning the individual who signs as well as the corporations, partnerships or other parties listed above who certify)* hereby apply to HUD or USDA FmHA, as the case may be, for approval to participate as a principal in the role and project listed above based upon my following previous participation record and this Certificate.

I certify that all the statements made by me are true, complete and correct to the best of my knowledge and belief and are made in good faith, including the data contained in Schedule A and Exhibits signed by me and attached to this form.

A I further certify that:

1 Schedule A contains a listing of every assisted or insured project of HUD, USDA FmHA and State and Local Government housing finance agencies in which I have been or am now a principal.

2 For the period beginning 10 years prior to the date of this certification, and except as shown by me on the certificate:

a No mortgage on a project listed by me has ever been in default, assigned to the Government or foreclosed, nor has mortgage relief by the mortgagee been given.

b I have not experienced defaults or noncompliances under any Conventional Contract or Turnkey Contract of Sale in connection with a public housing project.

c To the best of my knowledge, there are no unresolved findings raised as a result of HUD audits, management reviews or other Governmental investigations concerning me or my projects.

d There has not been a suspension or termination of payments under any HUD assistance contract in which I have had a legal or beneficial interest attributable to my fault or negligence.

e I have not been convicted of a felony and am not presently, to my knowledge, the subject of a complaint or indictment charging a felony. *(A felony is defined as any offense punishable by imprisonment for a term exceeding one year, but does not include any offense classified as a misdemeanor under the laws of a State and punishable by imprisonment of two years or less.)*

f I have not been suspended, debarred or otherwise restricted by any Department or Agency of the Federal Government or of a State Government from doing business with such Department or Agency.

g I have not defaulted on an obligation covered by a surety or performance bond and have not been the subject of a claim under an employee fidelity bond.

3 All the names of the parties, known to me to be principals in the project(s) in which I propose to participate, are listed above.

4 I am not a HUD FmHA employee or a member of a HUD/FmHA employee's immediate household as defined in HUD's Standard of Conduct in 24 CFR 0.735 205(e)(2)/USDA's Standard of Conduct in 7 CFR Part O Subpart B.

5 I am not a principal participant in an assisted or insured project this date on which construction has stopped for a period in excess of 20 days or which has been substantially completed for more than 90 days and documents for closing, including final cost certification have not been filed with HUD or FmHA.

6 To my knowledge I have not been found by HUD or FmHA to be in noncompliance with any applicable civil rights laws.

B *(APPLICABLE TO GENERAL PARTNERS OR PROJECT OWNERS ONLY)*
All the parties who are principals or who are proposed as principals here are listed above and no principals or identities of interest are concealed or omitted.

C I am not a Member of Congress or a Resident Commissioner nor otherwise prohibited or limited by law from contracting with the Government of the United States of America.

D Statements above *(if any)* to which I cannot certify have been deleted by striking through the words with a pen. I have initialed each deletion *(if any)* and have attached a true and accurate signed statement *(if applicable)* to explain the facts and circumstances which I think helps to qualify me as a responsible principal for participation in this project.

Typed or Printed Name of Principal	Signature of Principal	Title, Role or Capacity	Date	Area Code and Telephone No

WARNING It is a crime to knowingly make false statements to the United States on this or any other similar form. Penalties upon conviction can include a fine and imprisonment. For details see Title 18 U.S. Code, Section 1001 and Section 1010.

THIS FORM WAS PREPARED BY *(Please print name)*

AREA CODE & TELEPHONE NO

REPORT OF INSPECTOR GENERAL INTERNAL PROCESSING ONLY

THE INDICES OF THE INSPECTOR GENERAL'S OFFICE HAVE BEEN CHECKED FOR THE NAMES OF THE PRINCIPALS LISTED IN PART I ABOVE

AND ☐ a WE HAVE NO INFORMATION OR ☐ b WE HAVE INFORMATION AND A REPORT IS ATTACHED

DATE

TITLE

SIGNATURE

Replaces Form FHA 2530 which is Obsolete

Page 1 of 2 pages

HUD 2530/USDA FmHA 1944 37 (1 81)

Form Approve
OMB 2502 0

SCHEDULE A - LIST OF PREVIOUS PROJECTS AND SECTION 8 CONTRACTS

By my name below is the complete list of my previous projects and my participation history as a principal in Multifamily Housing programs of HUD/USDA-FmHA, State and Local Housing Finance Agencies

NOTE: Read and follow the attached instructions sheet carefully, Abbreviate where possible. Make full disclosure. Add extra sheets if you need more space. Double check for accuracy. If you have no previous projects write by your name - "No previous participation - First Experience.

1. List each Principal's Name *(List in Alphabetical Order, Last Name First)*	2., List Previous Projects *(Give the I.D. Number, Project Name, City of Location, Government Agency involved and Number of Units in the Project)*	3. List Principal's Participation Role and Interest - Give Month and Year Participation began and ended	4. Disclose Defaults, Mortgage Relief, Assignments, Foreclosures. If None, write "None."	5 RESERVED FOR HUD PROCESSING

PART II - INTERNAL PROCESSING ONLY

1. Received by the Field Office, checked by me for accuracy and completeness and found ready for processing:

DATE

FTS TELEPHONE NUMBER

SUPERVISOR, PROCESSING CONTROL AND REPORTS UNIT

2. TO: Department of Housing and Urban Development, Multifamily Participation Review Committee, Washington, D.C.
A review of the records and project files of this office relative to the above listed parties and projects reveals:

☐ A. No adverse information, Form HUD-2530 approval is recommended; ☐ B. Problems exist, my memorandum on them is attached.

DIRECTOR OF HOUSING

PROCESSING IS AUTHORIZED

DATE

NAME OF AREA MANAGER

SYNOPSIS OF THE PROPERTY DISPOSITION COMMITTEE'S FINDINGS
for
Mt. Prospect Towers
380 Mt. Prospect Avenue
Newark, New Jersey
Project No. 031-00207

Background:

A meeting was held on October 23, 1981 by the Property Disposition Committee of the Newark Area Office in reference to the above. Voting members of the committee in attendance were:

James P. Sweeney, Area Manager
Thomas J. Verdon, Deputy Area Manager
James J. Loftus, Director, Housing Division
Vita Weiss, Area Counsel
Diane J. Johnson, Deputy Director, Hsg. Management
Leo Dyce, Deputy Director, Development
Ronald J. Santa, Chief, Loan Mgmt. Branch
Claude P. Miller, Director, Comm. Planning & Dev. Division

Also attending for the purpose of clarifying technical information but not a voting member was John L. Evans, Chief, Property Disposition Branch.

Discussion:

The meeting was opened by the Chairman and Mr. Evans presented the Property Disposition Branch's recommendation. This was followed by general discussion during which various aspects relative to the previous history as well as the marketability of the subject project were discussed. Areas such as rent strikes, physical condition, and advertisement were analyzed.

The discussion continued focusing on the project being advertised All Cash-No Stated Minimum. Several committee members were concerned with the markets interest in the subject project being sold in this manner. The discussion then centered on the following: (1) The recommended sale of Mt. Prospect Towers As All Cash-No Stated Minimum will attract purchasers that may be interested in conversion to a cooperative or condominium. A sale as a condominium can also generate a profit as it can be bought and sold freely in the market. These types of conversions can serve the purchaser with tax advantages, the potential for capital appreciation and an eventual sale at a profit.

(2) The subject project has been in HUD's inventory since 1969. It would be in the best interest of the government to dispose of this project in the near future since continued possession has proven to be very costly to the Department. Therefore, no benefits are served to further maintain HUD's ownership.

While there is no statement of fact, we project that this project will attract a purchase price in excess of $1,000,000.00.

Findings:

Based on the preceding, the committee concurred with Property Disposition's recommendation that Mt. Prospect Towers be placed for sale on the open market All Cash-No Stated Minimum. Additionally, the Departmtne will reserve the right to reject any and all bids.

Furthermore, the purchaser will be required to submit an earnest money deposit of 10% of the bid price. The remaining cash balance is payable at the time of closing.

It has also been determined that Mt. Prospect Towers be nationally advertised to attract a wider market and prospectus be prepared in accordance with Central Office memorandum dated August 19, 1981, subject: Mailing of Multifamily Prospectuses and Offer Kits.

Synopsis of the Property Disposition Committee's Finding:

Chairman Area Manager	✓	I concur with the recommendation	____ I do not concur
Director Housing Division	✓	I concur with the recommendation	____ I do not concur
O. Weiss Area Counsel	✓	I concur with the recommendation	____ I do not concur
Deputy Director Housing Management	✓	I concur with the recommendation	____ I do not concur
Deputy Director for Development	✓	I concur with the recommendation	____ I do not concur
Chief Loan Management Branch	✓	I concur with the recommendation	____ I do not concur
Director CPD Division	✓	I concur with the recommendation	____ I do not concur
Thomas J. Verdon Deputy Area Manager	✓	I concur with the recommendation	____ I do not concur

Memorandum

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : Robert P. Kalish, Director
Office of Multi-Family Financing
and Preservation
Room 6160
Washington, D. C. 20515

DATE:

IN REPLY REFER TO:
2.4HMP:Jablonski

FROM : James P. Sweeney, Office of the Area Manager
Newark Area Office

SUBJECT: Property Disposition Committee Meeting
Mt. Prospect Towers
Newark, New Jersey
Project No. 031-00207

Enclosed is the final disposition recommendation approved by the local disposition committee and myself, as proposed by the Property Disposition staff.

Tenant notification of this anticipated disposition has produced no responses to indicate any modification should be enacted.

Based on the foregoing, we herewith request the necessary contract documents and bid procedures relevant to this final disposition be assembled and sent to me as soon as possible so we may proceed with the sale of this project.

Area Manager

Memorandum

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO: Chairman, Property Disposition Committee

DATE: FEB 26 1982

IN REPLY REFER TO:

FROM: Robert P. Kalish, Director, Office of Multifamily Financing and Preservation Robt P Kalish

SUBJECT: Park Towers Apartments
Project No. 017-00101
Bridgeport, Connecticut

AUTHORIZATION TO SELL WITH PURCHASE MONEY MORTGAGE AND SECTION 8 CERTIFICATES

History

Park Towers, a 10-story, high-rise project with 109 units built in 1971 under Section 207, is located in a middle-class, "blue collar" neighborhood. Public and commercial services are readily accessible by public transportation.

Failure was caused by low occupancy which precipitated insufficient income to support the project. Mortgagee-in-possession status was gained in 1977 and foreclosure was effected on January 1, 1980.

The project has undergone numerous repairs during HUD's ownership. However, interior painting and carpeting remain to be completed at an estimated cost of $108,000.

Analysis

An income survey found 23 households eligible for Section 8. The field office has requested 23 Section 8 Existing Certificates be allocated to assist the eligible tenants.

The projected market comparable rents used to price the project exceed the Section 8 Existing FMR's by more than 49 percent, therefore, Section 8 assistance will not be sufficient to cover the shelter costs for the eligible tenants. This issue may cause displacement, since a Certificate may not be used for a unit where the eligible tenant would be paying more than 25 percent of his or her adjusted income for shelter costs. Based on this issue the field office recommends allocating Section 8 Certificates at 120 percent of the FMR's which should enable the eligible tenants to find comparable and affordable housing within proximity of the subject project if the purchaser raises rent to the estimated market comparable level.

The field office established a sales price of $1,617,895 based on a 16.5 percent capitalization rate and a deduction of $107,105 for a repair escrow. We have recomputed the sales price based on current policy which produces an offering price of $2,072,000 based on an 11 percent interest mortgage for 40 years. Further, HUD will provide a maximum available purchase money mortgage of $1,657,600. A repair escrow of $108,000 will be deducted from the down payment at closing.

Recommendation

Based on the field office's recommendation, I request authorization to advertise Park Towers at a minimum offering price of $2,072,000 with a maximum purchase money mortgage (PMM) at $1,657,600 for a term of 40 years at 11 percent interest, callable in 10 years at the option of the lender. In addition, $108,000 will be placed into a repair escrow to complete required repairs.

This authorization shall also provide contract and budget authority for 23 Section 8 Existing Certificates for the eligible tenants.

Attachments

Member of Committee

Member of Committee

Member of Committee

Member of Committe

Concurrence
Special Assistant

Concurrence
Deputy Assistant Secretary

Approved
Chairman

Date

Memorandum

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO: Robert P. Kalish, Director, HMF
Office of Multifamily Financing and Preservation

DATE:

IN REPLY REFER TO:

GSC
3-24-82

FROM: Edmund Davis, 2.3S
New York Area Office

SUBJECT: Disposition Recommendation
Project No. 012-30337/45, Sherwood Village, Rego Park, N.Y.

This transmits the Disposition Recommendation (HUD-9650) and related exhibits as proposed by the Multifamily Property Disposition Branch, with the appropriate concurrences. This submission complies with outstanding policies and procedures, and all attachments have been signed and dated.

I recommend that the Property Disposition Committee authorise this proposal as summarised in the attached HUD 9650, Section VII, entitled Conditions of Sale. Briefly, those conditions are: Sales Price: TO BE NEGOTIATED; Mortgage $830,200; Term 40 years; Interest Rate 12%; Price to be stated NONE; Type of sale RENTAL; Method of Sale NEGOTIATED; Financing PMM; Advertising NONE: Displacement NONE; Subsidy MOD REHAB.

Proposed Section 8 contract authority and budget authority is $1,327,000 and $19,905,000 respectively. Subsidy payments would commence as authorised by the PDC, either at sales closing or in accordance with an Agreement to Enter into Housing Assistance Payments Contract.

Since repairs are to be completed by the purchaser, he should be required to provide financial guarantees at sales closing to cover not only HUD's repair estimate but also the projected operating deficit. In this case, the following factors are relevant: HUD's repair estimate $1,236,000; repairs are to be completed with 9 months after sales closing; the projected operating deficit is $58,500, per month or $526,500 over 9 months. Therefore, financial guarantees should total $1,762,500.

Finally, appropriate language concerning financial guarantees should be incorporated into the Contract of Sale and Purchase, as well as the stipulation that said Contract may be rescinded by HUD upon written notification to the purchaser in the event of contractual non-compliance.

Area Manager

CONCURRENCE : George E. Riley
George Riley

DATE: 3/17/82

SYNOPSIS OF THE PROPERTY DISPOSITION COMMITTEE'S FINDINGS
for
Gregory Park III
Jersey City, New Jersey
Project No. 031-55017

Background:

A meeting was held on January 29, 1982 by the Property Disposition Committee of the Newark Area Office in reference to the above. Voting members of the committee in attendance were:

Thomas J. Verdon, Acting Area Manager, Chairman
James J. Loftus, Director, Housing Division
Vita Weiss, Area Counsel
Diane J. Johnson, Deputy Director, Hsg. Management
Joseph Archutowski, Chief, MF Valuation Branch
Claude Miller, Director, Comm. Planning
and Development Division
Robert Hazelwood, Director, FH/EO
Ronald J. Santa, Chief, Loan Management Br.

Discussion:

The meeting was opened by the Chairperson with the Chief, Property Disposition Branch explaining the proposed disposition plan. This was followed by general discussion during which various aspects relative to the previous history as well as the marketability of the subject project were discussed. Areas such as physical conditon, occupancy, advertisement and protection of Section 8 eligible tenants were analyzed. The Condition of the exterior brick facade and cost of correction was highlighted.

Findings:

(1) The subject project has been in HUD's inventory since May 11, 1978. The project is in good physical condition internally with most repairs required on the exterior. Therefore, it would be beneficial to HUD to sell the project subject to the purchaser completing repairs.

(2) It was agreed that the $1,163,120 in repairs would be completed by the purchaser and made a condition of sale.

(3) The committee concurred with Property Disposition's recommendation that Gregory Park III be placed for sale on the open market All Cash-No Stated Minimum. Additionally, the Department will reserve the right to reject any and all bids.

(4) It was determined that the best method of protecting the Section 8 Eligible Tenants would be for Central Office to provide Section 8 Finders Keepers certificates from the Central Office P.D. set-aside for 148 Section 8 Eligible Tenants.

(5) The Chairman discussed the question of delinquent tax payments under the tax abatement agreement. It was agreed that the Project Manager be required to produce annual accounting for the period in question and immediate payment be made to the City. It was further recommended and agreed upon that a partial payment be made pending calculation of the actual amount due.

(6) The committee approved the use of the As Is Value established of $215,000 as an in house estimate.

(7) Furthermore, the purchaser will be required to submit an earnest money deposit of 10% of the bid price. The remaining cash balance is payable at the time of closing.

(8) It has also been determined that Gregory III be nationally advertised to attract a wider market and prospectus be prepared in accordance with Central Office memorandum dated August 19, 1981, subject: Mailing of Multifamily Prospectuses and Offer Kits.

(9) The Committee reviewed the tax abatement agreement and recommended that the sales advertisement stipulate that the payment in lieu of taxes agreement is transferrable contingent upon the purchaser being a limited dividend entity.

Chairman
Acting Area Manger
✓ I concur with recommendation ______ I do not concur

Director
Housing Division
✓ I concur with recommendation ______ I do not concur

Area Counsel
✓ I concur with recommendation ______ I do not concur

Joseph Aruchtowski
Chief, MF Val. Br.
✓ I concur with recommendation ______ I do not concur

Claude P. Miller
Director
Community Planning &
Development Division
✓ I concur with recommendation ______ I do not concur

SYNOPSIS OF THE PROPERTY DISPOSITION COMMITTEE'S FINDINGS
for
University Towers
100 Memorial Parkway
New Brunswick, NJ
Project No. 031-30047

Background:

A meeting was held on January 29, 1982 by the Property Disposition Committee of the Newark Area Office in reference to the above. Voting members of the committee in attendance were:

Thomas J. Verdon, Acting Area Manager, Chairman
James J. Loftus, Director, Housing Division
Vita Weiss, Area Counsel
Diane J. Johnson, Deputy Director, Hsg. Management
Joseph Archutowski, Chief, MF Valuation Branch
Claude Miller, Director, Comm. Planning
and Development Division
Robert Hazelwood, Director, FH/EO
Ronald J. Santa, Chief, Loan Management Br.

Discussion:

The meeting was opened by the Chairperson with the Chief, Property Disposition Branch explaining the proposed disposition plan. This was followed by general discussion during which various aspects relative to the previous history as well as the marketability of the subject project were discussed. Areas such as physical conditon, occupancy, advertisement and protection of Section 8 eligible tenants were analyzed.

Findings:

(1) The subject project has been in HUD's inventory since September 1, 1979. The project required $800,000 in repairs which is largely cosmetic in nature. Therefore, no benefit would be served by continued HUD ownership.

(2) It was agreed that the $800,000.00 in repairs would be completed by the purchaser and made a condition of sale.

(3) The committee concurred with Property Disposition's recommendation that University Towers be placed for sale on the open market All Cash-No Stated Minimum. Additionally, the Department will reserve the right to reject any and all bids.

(4) It was determined that the best method of protecting the Section 8 Eligible Tenants would be for Central Office to provide Section 8 Finders Keepers certificates from the Central Office P.D. set-aside for 78 Section 8 Eligible Tenants.

(5) The committee approved the use of the As Is Value established of $604,000 as an in house estimate.

(6) Furthermore, the purchaser will be required to submit an earnest money deposit of 10% of the bid price. The remaining cash balance is payable at the time of closing.

(7) It has also been determined that University Towers be nationally advertised to attract a wider market and prospectus be prepared in accordance with Central Office memorandum dated August 19, 1981, subject: Mailing of Multifamily Prospectuses and Offer Kits.

Thomas J Verdon ✓ I concur with ______ I do not concur
Chairman recommendation
Acting Area Manger

✓ I concur with ______ I do not concur
Director recommendation
Housing Division

Rita O. Weiss ✓ I concur with ______ I do not concur
Area Counsel recommendation

✓ I concur with ______ I do not concur
Joseph Jeruchtowski recommendation
Chief, MF Val. Br.

Claude Miller ✓ I concur with ______ I do not concur
Claude P. Miller recommendation
Director
Community Planning &
Development Division

Robert E Hazelwood ✓ I concur with the ____ I do not concur
Robert Hazelwood recommendation
Director, PH/EO

Ronald J Santa ✓ I concur with the ____ I do not concur
Ronald J. Santa recommendation
Chief
Property Disp. Br.

Memorandum

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TO : Robert T. Kalish, HMF

DATE FEB 3 1982

IN REPLY REFER TO: 1.2HMP

FROM : John W. McLean, Hartford Area Office, 1.2S

65C
2-8-82

SUBJECT: Sales Recommendation - HUD-Owned Project
Evergreen Manor, Bridgeport CT
Project No. 017-44169

I have reviewed the attached documentation and based on this review, it is my recommendation that the subject project be advertised for sale as a rental complex.

Minimum sales price is $1,346,800. The HUD estimate for replacing attic vents, redecorating hallways, and repair of many site improvements is $129,600. I also recommend this estimate of repairs be funded with a letter of credit.

Purchase money mortgage for a 40-year term, 16½% maximum amount of $1,212,200 is recommended.

Section 8 existing, for all of its 176 units, should be made available for a 15-year period from the CO Property Disposition account.

Sealed bid procedure for sale to the highest qualified bidder is recommended.

No tenant will be displaced or relocated as a result of the sale as recommended.

Notice of disposition recommendation was forwarded to the tenants on January 26, 1982, with responses due February 12, 1982. If the comments have an impact on this recommendation, a revised recommendation will be submitted.

A lump sum deposit of $44,745 to the Reserve for Replacement fund will also be required by the purchaser.

Robert T. Bland
Deputy Area Manager

Memorandum

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : Robert P. Kalish, Director
Office of M/F Financing & Preservation

DATE: 18 MAR 1982

IN REPLY REFER TO:

GSC
3-24-82

FROM : Edmund R. Davis, New York Area Office, 2.3S

SUBJECT: Project No. 012-44050/55110, Surrey/Carlton, Spring Valley, NY
Disposition Recommendation

This transmits the Disposition Recommendation (HUD 9650) and related exhibits as prepared by the M/F Property Disposition Branch, with the appropriate concurrences. This submission complies with outstanding policies and procedures, and all attachments have been signed and dated.

I recommend that the Property Disposition Committee authorize this proposal as summarized in the attached HUD [illegible]650, Section VII, entitled Conditions of Sale. Briefly, those conditions are: Sales Price TO BE NEGOTIATED; Mortgage $649,325; Term 40 YEARS; Interest Rate 12%; Price to be stated N/A; Type of Sale RENTAL; Method of Sale NEGOTIATED; Financing PMM; Advertising N/A; Displacement NONE; Subsidy MOD REHAB.

Proposed Section 8 contract authority and budget authority is $931,000 and 13,965,000 respectively. Subsidy payments would commence as authorized by the PDC, either at sales closing or in accordance with an Agreement to Enter into Housing Assistance Payments Contract.

Since repairs are to be completed by the purchaser, he should be required to provide financial guarantees at sales closing to cover not only HUD's repair estimate, but also the projected operating deficit. In this case the following factors are relevant: HUD's repair estimate $1,600,000; repairs are to be completed within 11 months after sales closing; the projected operating deficit is $26,475 per month or $291,225 over 11 months. Therefore, financial guarantees should total $1,891,225.

Finally, appropriate language concerning financial guarantees should be incorporated into the Contract of Sale and Purchase, as well as the stipulation that said Contract may be rescinded by HUD upon written ntoification to the purchaser in the event of contractual non-compliance.

Edmund R. Davis
Area Manager

CONCURRENCE George Riley
GEORGE RILEY

DATE 3/17/82

BELOW-MARKET MORTGAGES

Senator PROXMIRE. I understand as part of the package HUD is providing a first mortgage at 11½ percent and a second mortgage at 2½ percent. Aren't those mortgages substantially below market rates and isn't this a change in HUD's policy of providing market rate mortgages?

Mr. ABRAMS. It is below market rate. Our policy on property disposition is to sell property on purchase money mortgages between 11 and 12 percent.

Senator PROXMIRE. When did the change in policy take place?

Mr. ABRAMS. That has been going on at least for the past 6 to 8 months.

Senator PROXMIRE. But the second mortgage was 2½ percent, not between 11 and 12 percent.

Mr. ABRAMS. The HUD policy under the Carter administration was to have the project repairs performed by HUD instead of having the developers do it and then sell it after the repairs were made. This is why it cost so much and took so long to dispose of the property.

Our policy has been to sell properties as is and require the developers to do the remodeling that is necessary to bring the projects up to safe and decent standards.

What we normally do on projects is to determine a sales price and then reduce the sales price by the amount that is necessary or that is estimated to repair the buildings. In this case, instead of just reducing the sales price, we have kept the sales price at the higher level and then lent back the money to do the repair work by using a second mortgage. So we actually are getting 2½ percent interest on money which, by prior policy, we would not have gotten any interest on.

COST TO TAXPAYERS OF BELOW-MARKET LOANS

Senator PROXMIRE. How much would the subsidies cost taxpayers overall?

Mr. ABRAMS. I am sorry.

Senator PROXMIRE. How much would the 11½ percent and the 2½ percent mortgage subsidies cost the taxpayer? You said the second wouldn't cost the taxpayers.

Mr. ABRAMS. The second gets 2½ percent more interest than we would previously have received. The 11½-percent interest is an increase from the 6-percent rate that was being used by the prior administration.

Senator PROXMIRE. I can't understand how a 2½-percent mortgage puts the Government ahead. If HUD keeps the money, doesn't that put the Department in a position where it doesn't have to borrow money at the regular Treasury rate, which might be around 13 or 14 percent?

Mr. ABRAMS. If you want me to repeat it, I will. Take a hypothetical deal where you establish that the price for the building is $10 million but we require that those buildings be repaired because we want them brought up to safe and decent housing standards. If there is an estimate of $4 million worth of repairs, our normal practice is to reduce the sale price to $6 million, complete the transaction like that, and have the developer escrow or prove to us he has $4 million which he is going to spend on construction of the repairs.

In this case, they are paying the full $10 million and they are borrowing back the money at a 2½-percent interest rate instead of having the sales price reduced.

Senator PROXMIRE. What is the purchaser's out-of-pocket costs on this deal? They don't seem to amount to much.

Mr. ABRAMS. He is putting up $5½ million in cash, which is a third of the value of the properties after the repairs are done.

Senator PROXMIRE. But you are lending the money back to him at 2½ percent.

Mr. ABRAMS. We are lending back part of it at 2½ percent.

Senator PROXMIRE. How much are you lending back?

Mr. ABRAMS. I believe it is $3.5 million, somewhere around there.

Senator PROXMIRE. If you can work this out, give us the work sheets. We would like to look at the arithmetic.

LIMITATION ON PROFITS

I understand that HUD is proposing to limit First American to a 10-percent profit on this proposal. Are the profits that First American makes from the sale of the tax breaks included in the 10-percent profit limitation?

Mr. ABRAMS. No, they are not.

Senator PROXMIRE. That is the reason why they are willing to go ahead. Ten-percent money these days isn't worth anything.

Mr. ABRAMS. That is the reason all HUD dealings are attractive.

VALUE OF TAX BREAKS

Senator PROXMIRE. In the $10.9 million package, how much can those tax breaks be sold for?

Mr. ABRAMS. I would say that they are normally worth somewhere between 21 and 25 percent.

Senator PROXMIRE. Of what?

Mr. ABRAMS. Of the total mortgage amount.

Senator PROXMIRE. Which is how much?

Mr. ABRAMS. Which is about $16 million.

Senator PROXMIRE. They are worth as much as $4 million?

Mr. ABRAMS. That is spread out over 5 years and involves a whole set of balance sheets and expenses that don't show up.

Senator PROXMIRE. If you include the tax breaks in the projected profits of First American, what is their effective profit margin?

Mr. ABRAMS. I agreed to do that analysis and submit that for the record.

Senator PROXMIRE. I'm just about through, Mr. Chairman.

ASSURANCE THAT DEVELOPER WILL HONOR DEAL

If I understand your packaging concept correctly, to use profits from viable projects to turn around distressed ones, I assume the Department has in some shape or fashion tied the seven projects together to assure itself that the owner will not sell the good projects, take his profits, and then simply walk away from the more troubled projects. In this regard, I understand the owner will be paying all cash for three of the projects—the better ones—and taking HUD-held mortgages for the other four projects.

Can you elaborate what safeguards the Department has put in place to insure that the purchaser will not simply sell the good projects and default on the remaining projects?

Mr. ABRAMS. I believe it is two projects they anticipate converting, in the future, to condominiums. I might add this is a unique part of the deal. HUD will get 25 percent of the net profits from any of the condominium conversions in the future. I am not aware at this time of how those details of the proposal are structured, but I will be glad to submit it for the record.

Senator PROXMIRE. In other words, for the record you are going to tell me what safeguards you have so the purchasers won't walk out on the bad projects and benefit from selling the good ones?

Mr. ABRAMS. Yes, sir.

[The information follows:]

HUD SAFEGUARDS

The Department is exploring several ways to insure that all properties included in the proposed sale will be repaired and protected. These safeguards are under discussion, but have not been completed. The proposed safeguards include the following:

First. A payment and performance bond requiring the purchaser to put up a bond worth 15 percent of the cost of rehabilitation on each project. This bond will insure completion of repairs.

Second. HUD will insert cross-default provisions on all mortgages which will provide that if one mortgage goes into default, all mortgages may be declared in default.

Third. HUD will not allow conversion of any of the projects to condominium, cooperative, or any other form of ownership until all repairs are completed on all projects.

Fourth. For projects that will receive section 8 assistance, HUD or a public housing agency will have a section 8 contract with the purchaser. The section 8 contract gives HUD the right to take over operation of a project if the owner is not performing satisfactorily. Six of the seven properties to be included in this sale will have some form of section 8 contract.

Fifth. The projects with purchase-money mortgages (four of the seven) also will have regulatory agreements which are contracts between HUD and the owner guaranteeing the owner's performance under HUD's regulations and requirements.

SECTION 8 SUBSIDIES FOR PROJECTS SOLD

Senator PROXMIRE. I have two other questions.

Will HUD attach section 8 subsidies to any of these projects and, if so, what are the estimated cost of these subsidies for the full term to be provided?

Mr. ABRAMS. I do not have that information with me. I will have to submit it.

[The information follows:]

PROPOSED SECTION 8 ASSISTANCE

An analysis of section 8 assistance to be provided to six of the projects proposed for sale follows:

[Dollar amounts in thousands]

Project	Type	Total units	Section 8 assistance: Units	Contract term	Contract authority	Budget authority
Mount Prospect	(1)	106	(1)	(1)	(1)	(1)
Park Towers	Certificates	109	23	15 yrs.	$99	$1,485
Sherwood Village	Mod. rehab.	203	203	do	1,327	19,905
Gregory Park III	Certificates	200	148	do	573	8,595
University Towers	do	168	78	do	365	5,475
Evergreen Manor	Existing hsg.	176	176	do	777	11,655
Surrey-Carlton	Mod. rehab.	184	182	do	931	13,965
Total		1,146	810		4,072	61,080

[1] Not applicable.

NOTE: Section 8 assistance would be provided for all section 8 eligible tenants.

SECTION 8 ANALYSIS REQUIRED

Senator PROXMIRE. Has the section 8 analysis required by 24 CFR 290 been completed and approved by the Office of General Counsel?

Mr. ABRAMS. I am not familiar with the citation.

Senator PROXMIRE. Doesn't that have to be done before you can provide section 8 subsidies?

Mr. ABRAMS. We will have to submit it for the record. I am not familiar with the citations or the facts.

Senator PROXMIRE. Are any people here who could inform us on that issue?

Secretary PIERCE. I just talked with the General Counsel. He does not know the answer off the top of his head, so we will have to submit it for the record.

[The information follows:]

SECTION 8 ANALYSIS

The analysis required under 24 CFR 290.27 had been completed for each of the projects proposed for sale. Field office staff conducted a survey of each project in order to determine how many of the current tenants were eligible for section 8 assistance and the amount and type of assistance needed based on the status of the project—existing housing, moderate rehabilitation, et cetera. It was determined from the analysis that 810 units, utilizing $61.1 million of budget authority, would be provided with section 8 assistance.

The committee staff has been supplied the working papers which detail the analysis of each project.

MARKET TEST TO DETERMINE VALUE

Senator PROXMIRE. We did ask you to bring somebody here who knew about the projects. It was too bad you were unable to do that.

Once a deal like this is worked out, do you ever test the market to see if you could get a better price on the same package? It sounds like a good deal. You said it looks good. As I indicated, a lot of very significant and important political people were involved. It was obviously something you might anticipate would arouse public criticism. So in order to protect yourself and the Government, did you find out if you would get a better price for the same package?

Mr. ABRAMS. By the process of submitting this to the three area office property disposition committees, it is their responsibility to make an evaluation of whether this is in the best interest of the Government.

Senator PROXMIRE. You say you submitted this to three regional offices in Connecticut, New Jersey, and New York.

Mr. ABRAMS. The three area offices.

Senator PROXMIRE. And they have made a judgment——

Mr. ABRAMS. That has not been submitted to them.

Senator PROXMIRE. No?

Mr. ABRAMS. The package has been put together. We have just decentralized the process by setting up area office property disposition committees to try and get this out of the central office to expedite the procedures.

Senator PROXMIRE. When will that submission be made?

Mr. ABRAMS. All I had was a draft recommendation as of 2 weeks ago. When the final papers are put together, we will send them to the three area offices.

Senator PROXMIRE. You are confident there is no implicit pressure on them to——

Mr. ABRAMS. I think to the contrary. With the amount of publicity and some inaccuracies of the media, I think the pressure would be for them to not approve the project.

INACCURACIES IN MEDIA

Senator PROXMIRE. My time is long since up. But I would like to ask you, if you want to tell us, what is inaccurate about the media stories? I read you a part of the basic article. It seems to me nothing you said here has challenged any statement Mr. Kurtz made.

Mr. ABRAMS. First of all, he said that we have abolished the property disposition committee, which is incorrect. We have kept the property disposition committee at HUD central office and we have decentralized the committees and set them up in the area offices. I think that is the most significant.

Senator PROXMIRE. You abolished the national committee?

Mr. ABRAMS. The national property disposition committee is established by regulations and it specifies who the members are.

Senator PROXMIRE. With regard to the people involved, as well as the terms of the sale and so forth, are all the facts as stated in the article?

Mr. ABRAMS. No; there are facts in the article that are incorrect.

Senator PROXMIRE. Such as?

Mr. ABRAMS. Well, first of all, HUD doesn't pay management fees, they are generated by the owner in operating the building. It said that the panel of career employees was abolished. It was a mixture of career and political employees; it wasn't abolished, it was decentralized to the area offices. It said that there were four projects that received purchase money mortgages. There are 15 projects that received purchase money mortgages.

Senator PROXMIRE. In general, it seems to me, the article stands up pretty well, but I understand your reservations.

Thank you, Mr. Chairman.

Senator GARN. Senator Huddleston.

Senator HUDDLESTON. Thank you Mr. Chairman.

Some of the questions that I want to ask may have been covered yesterday. I regret that I wasn't here, but we were dealing, as you know, with the urgent supplemental in full committee. If we go over any ground covered, you can indicate that.

HOUSING STIMULUS LEGISLATION

Mr. Secretary, both the House and the Senate obviously are moving toward passage of legislation to stimulate housing production—the St Germain bill on the House side and the Lugar bill on the Senate side. Has the administration taken a position on this legislation?

Secretary PIERCE. Yes, it has. We do not support the Lugar bili or any of the other bills you referred to.

Senator HUDDLESTON. What is the reason for this?

Secretary PIERCE. The reason is a budgetary one. What we are trying to do is keep down the deficit. The Lugar bill, which is probably the least expensive of all of them, will cost somewhere between $3 and $4 billion over the next few years in outlays. Eventually, we may get back the money, but that may be 10, 15 years from now.

We are thinking about the immediate impact on the budget.

Senator HUDDLESTON. Don't you think the 20-percent unemployment in the construction industry and the lack of business activity in that and related sectors is contributing to the deficit?

Secretary PIERCE. Well, we also believe that the President's economic program has not been given enough time yet, and that by the time the Lugar proposal could get into action and make any impact on the economy, we would be in a better position by following the economic program that the President has set forth without the additional debt to the Government.

INTEREST RATE DECREASE

Senator HUDDLESTON. Are you suggesting there is going to be a precipitous drop in interest rates by the time the Lugar bill could be passed and implemented?

Secretary PIERCE. I believe interest rates will go down significantly by the end of the year.

VETO OF HOUSING STIMULUS LEGISLATION

Senator HUDDLESTON. Is the opposition of the administration at this point strong enough to suggest that if the bill is passed, even by the overwhelming majority in the Senate that it was in the House, a veto could be expected?

Secretary PIERCE. No; that is up to the President. I am not going to predict that he would veto the bill. I am just giving you the basic reasons of the administration for not supporting the bill at this time.

Senator GARN. Would the Senator yield?

Senator HUDDLESTON. Yes.

AFFORDABILITY OF HOUSING STIMULUS BILL

Senator GARN. If you look at what we did yesterday in committee, there was a net decrease of some $7 billion in the urgent supplemental and our subcommittee took $8 billion in reductions.

All of our other colleagues added items to the urgent supplemental. The thing that bothers me, Mr. Secretary, is the Senate continually, not only this year, but last year, has taken the vast majority of the rescissions out of the HUD and Independent Agencies Subcommittee. Also, in the total budget cuts for fiscal year 1982, more than half of them came out of this subcommittee. We constantly hear from the administration that we can't afford the Lugar bill. I would only say, you know how supportive I have been of the administration; how much of the budget cuts is this particular subcommittee supposed to take?

We took more than the other 12 subcommittees put together took last year. When you look at these numbers and the reductions we took in the urgent supplemental, I think we might be able to accommodate an additional billion in outlays for fiscal 1982. I think we need to look at the overall picture. We need to find money for a program like the housing stimulus bill. Maybe some of the other subcommittees might start to do their share, because I think Senator Huddleston and I have done our share in the last couple of years.

Senator HUDDLESTON. The chairman is becoming known as "Jake the Knife." [Laughter.]

Senator GARN. I think it is fair to say that I have done my part in support of the Reagan administration and they might take that into consideration and put a little more pressure on some of the other subcommittees.

IMPLEMENTATION OF STIMULUS LEGISLATION

Senator HUDDLESTON. Mr. Secretary, assuming passage of the Lugar bill—and the opposition at this point of the administration notwithstanding—both the House and Senate bills have provisions requiring that the Secretary of HUD issue final regulations, make allocations, and issue commitments no later than 30 days after enactment of the appropriations. I think you recently testified before the House Appropriations Committee it would take you 120 days to implement a program. Are any preparations underway now so that you would be in a position to immediately move toward implementation assuming that we do have a bill?

Secretary PIERCE. Yes; we are working on that and we hope to be able to act relatively quickly if there is a bill.

Senator HUDDLESTON. You think you can reduce that 120 days estimate that you made previously?

Secretary PIERCE. I think we can reduce that. Whether we can get to 30, I do not know.

ALLOCATION OF OPERATING SUBSIDY SUPPLEMENTAL

Senator HUDDLESTON. Congress has provided a $140 million supplemental appropriation for public housing operating subsidies for fiscal 1981. Have all of these funds been allocated?

Secretary PIERCE. Will you repeat that question.

Senator HUDDLESTON. The $140 million supplemental appropriations for public housing operating subsidies, have all of these funds been allocated?

Secretary PIERCE. I certainly have been pushing that, but let me check with the housing people to see to what extent that has been done. They were allocated to the regional offices during the first week in March.

Senator HUDDLESTON. We are still getting reports from our local authorities that their allocations have not been received. Are we to assume it is in the pipeline?

Secretary PIERCE. I would certainly hope so. I do not know. I cannot go down and deliver it myself. But I have pushed that very much because I know it is needed.

PERCENT OF NEEDS FUNDED IN 1982 OPERATING SUBSIDIES

Senator HUDDLESTON. With the supplemental, what percentage of the fiscal year 1981 performance funding system requirement was finally covered?

Secretary PIERCE. I think I will have to have Mr. Abrams answer that question.

Mr. ABRAMS. The $140.6 million supplemental for 1981 brought the funding level to about 96½ percent for the PFS.

Senator HUDDLESTON. That is what our people indicated they were advised. We have also been advised the area office didn't have sufficient funds to meet that. Can you explain that situation?

Mr. ABRAMS. That is the first time I heard that reaction. No. I cannot explain it. but I will be glad to look into it if you have a specific area office.

REQUIREMENT FOR PHA TO SUBMIT RELEASES

Senator HUDDLESTON. In distributing the fiscal 1981 supplemental funds. HUD asked local housing authorities to sign releases to the effect that this supplemental payment constituted full and final settlement of all operating subsidies for 1981 including reimbursement for consumption overruns and utility rate increases for fiscal years 1980 and 1981. According to local housing authorities, this was an unprecedented move.

Can you explain HUD's intent in doing this?

Mr. ABRAMS. When we received the apportionment on January 22 from OMB, it included a statement that the 1981 supplemental included full and final payment for all expenses for 1981 and prior years and, therefore, precluded us from making fuel adjustments which the regulations in practice have provided for in the following fiscal year.

We found ourselves with apportionment restrictions that was different from prior practice. We consulted with staffs of this committee and in the House Appropriations Committee and then sent the money out with that restriction attached, that there would be no fuel adjustments for 1981. It asked that each housing authority acknowledge that and sign a release acknowledging that as they got their 1981 supplemental funds.

Last week, because of the amount of concern that this created, the Secretary dropped that provision and we have informed our area offices by telegram to no longer require the submission of a release by each public housing authority before they receive the 1981 supplemental funds.

Senator HUDDLESTON. But release or not, what you were apparently trying to get across was that this is all there is; there ain't no more, and you want an acknowledgement of that?

Mr. ABRAMS. That is correct.

Senator HUDDLESTON. But you have eliminated that one step.

Mr. ABRAMS. We have eliminated the release which seemed to aggravate people, but we have not withdrawn the funding limitation which would preclude utility adjustments for 1981.

Senator HUDDLESTON. What would happen if there were to be some additional allocation? What about those who have already signed releases; would they be foreclosed?

Mr. ABRAMS. No; we have advised the offices to ignore whatever releases they may have received to date. We are not going to treat them as a different class.

ALLOCATION OF 1982 APPROPRIATION

Senator HUDDLESTON. For fiscal 1982, Congress has appropriated $1.152 billion for operating subsidies. What is the status of the allocation of these funds?

Mr. ABRAMS. When we assigned those funds, again in the first week of March of this year, we advised the housing authorities that we intended to come up with a formula that would reduce the energy consumption levels commensurate with reductions in energy since 1976 in the private sector. The formula, as included in the regulations, provides that we take the 1973–76 consumption as a fixed basis and then apply the latest cost of utilities to it in determining the amount of operating subsidies that a housing authority is entitled to.

There is overwhelming evidence that the private sector and most well run housing authorities have reduced their energy consumption. In order to balance the $1.152 billion appropriated and apportioned to us with the demand for operating subsidies for housing authorities, we revised the formula which we are allowed to do in accordance with the regulations. This will reduce the energy consumption level so that all housing authorities would have to improve their energy management and we would not be rewarding housing authorities that were being irresponsible and making housing authorities that had been prudent suffer.

In trying to determine that formula, we did a regional survey of what the private market reductions and energy consumption were in each local area.

The housing authorities met with us and with some congressional staff and objected to being compared with the private sector because they felt that public housing was unique. There is some validity to that argument. We have been having ongoing negotiations with them to come up with a formula that would compare energy consumption reductions in all public housing with those in well-run public housing projects. Notwithstanding that, because this was delaying the allocation of funds, we met with our Council of Large Public Housing Authorities and agreed that we would fund everybody and start the cash moving at 75 percent of the 1981 level while we were negotiating this formula. Those assignments at 75 percent of the 1981 subsidy level were made the first week in March.

They got to the regional——-

Senator HUDDLESTON. I am sorry, but I have to interrupt you right here. We have a vote on. The chairman has already gone and we will be back shortly. The committee will stand in recess until the chairman returns.

[A brief recess was taken.]

Senator GARN. The subcommittee will come to order.

Mr. Secretary, this vote is a motion to instruct the Sergeant at Arms to request the attendance of absent Senators. The reason for that is the leadership is going to explain the budget compromise that we have been waiting for all night. You have been saved by the bell. I would simply say that we have about 70 pages of questions for you to respond to for the record.

POWERS HOTEL PROJECT

I would like to, however, on behalf of Senator Andrews, ask you about a constituent of his by the name of Paul Fedder in the region 8 office, who has had great difficulty over the Powers Hotel project. Without going into all of the detail on the project, Senator Andrews and I would appreciate it if you could have your staff in Washington and your representative in Denver contact Mr. Fedder in Fargo, N. Dak., and see if there could be some resolution to the problem. Please report back to me and to Senator Andrews.

I am not dictating any particular solution to the problem, but I think it is something that needs to be resolved.

Secretary PIERCE. We will do that.

Senator GARN. We will be happy to supply you any information you need.

Secretary PIERCE. We already have that.

SUBMITTED QUESTIONS

Senator GARN. Thank you very much. We appreciate your testimony and you can look forward to all those questions for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

Section 8 vs. Public Housing

Question: What is the Department's estimate of potential life cycle cost savings achievable by shifting 10,000 units from Section 8 new construction to Public Housing New Construction?

Answer: An analysis of the relative direct and indirect costs involved in producing units under Section 8 (with Tandem) and Public Housing indicates that Public Housing new construction is a slightly more costly method of providing assisted housing than Section 8 new construction. Shifting 10,000 units from Section 8 to Public Housing would result in an estimated additional life cycle cost of $15.7 million in budget authority.

Question: What percentage of Section 8 Housing serves large low-income households as compared to Public Housing?

Answer: For the year ending December 31, 1980, approximately 1.3 percent of Section 8 families moving in or being recertified were large families (6 or more minors). For the year ending September 30, 1980, approximately 8.9 percent of Public Housing families being recertified were large families (6 or more minors).

Question: What is the average income of tenants in Section 8 vs. Public Housing?

Answer: The average income used for determining rent was $5,270 for Section 8 tenants recertified in the year ending December 31, 1980 and $5,360 for Public Housing tenants recertified in the year ending September 30, 1980. These averages are based on a sample of 111,730 families for Section 8 and on a sample of 74,388 families for Public Housing.

Housing Assistance Plans

Question: How will the change to the Voucher System affect the local development and HUD's review of HAPs?

Answer: The development of Housing Assistance Plans (HAPs) has been an integral part of the Section 8 allocation process. As proposed for 1983, only the Section 202 Housing for the Elderly or Handicapped program reservations and the Modified Certificates utilized in conjunction with the Rental Rehabilitation program will be based on the HAPs. However, the HAPs will remain a vital portion of the Community Development Block Grant program which can provide funding for new construction and substantial rehabilitation and the local indication of housing needs as reflected in the HAPs will continue to be important as a guideline for providing Federally assisted housing.

Question: Has the Department considered switching to a less administratively burdensome process using a straight formula allocation basis. What are the pros and cons of such a change?

Answer: The development of the HAPs has in the past been an important guideline in determining housing needs nationwide. The regulations governing the allocation of authority have permitted some flexibility to meet disaster or other unforeseen needs of localities. A straight line formula would not allow this flexibility. The HAPs also have served as a process by which local governments can be involved in determining their own housing and development needs. This process has proven to be sensitive to the varied needs of local governments. A formula that is based on allocations would not be responsive to regional variations and needs nor would it involve the local governments in determining their housing and development goals or objectives. Instead, a formula would serve as a national standard that local governments must meet.

Most important, however, is that the method of providing housing assistance is proposed to be revised in 1983. The proposed changes will emphasize existing housing in lieu of new construction or substantial rehabilitation. Although the FY 1983 allocation of Section 202 authority is proposed to be based on the HAPs to the extent possible, only the Modified Certificates which will be utilized in conjunction with the Rental Rehabilitation program will rely on the HAPs because the Rental Rehabilitation program will be focused towards those localities with demonstrated need. The remaining Modified Certificates are to be earmarked for conversion, HUD-owned properties, contract renewal or other activities as they occur. The allocation of authority will not be determined by a formula because at this point it would prove to be administratively burdensome and unnecessary.

Rent Collection

Question: What is the cumulative amount of delinquent Public Housing rent as of the end of Fiscal Year 1981?

Answer: The total cumulative amount of delinquent Public Housing rent for all Public Housing Agencies (PHAs) is not available in the Department's data systems. However, the Department does require 34 large PHAs with 274,954 rental units that are considered to be financially troubled to submit status reports on delinquent rent. Based on these reports, it is estimated that approximately $8 million was delinquent as of December 31, 1981. This amount excludes delinquent rents that previously were written off as uncollectable.

Question: What are your projections for FY 1982?

Answer: Since data are not collected on delinquent rent for all projects of all PHAs, it is not possible at this time to develop an estimate of rental delinquency for 1982.

Question: What activities is HUD undertaking to make it easier for PHAs to collect delinquent rents and to evict disruptive tenants?

Answer: HUD is revising its regulations governing PHA lease, grievance and eviction procedures to make it easier for PHAs to evict tenants who are disruptive or delinquent in the payment of rent. The revisions to the regulations will give the PHAs greater flexibility in terms of the types of grievance hearings they provide to tenants who are being evicted. It is expected that the regulations also will shorten the time period required for a notice of termination of lease for nonpayment of rent. Greater reliance will be placed on State landlord-tenant law and procedures.

Question: What is HUD's policy relative to the desirability of having welfare agencies make direct payments to the PHA for rent on behalf of tenants who are welfare recipients?

Answer: The Department believes that payment of the shelter component of welfare payments directly to PHAs, often referred to as vendor payments, can be useful for certain cases of rent delinquencies. However, this should not be required for all welfare tenants. HUD does not believe that a family's source of income alone should be the basis of such a major departure from the established landlord-tenant relationship. In those cases where the tenant has demonstrated an inability to pay rent in a timely fashion, vendor payments are a possible solution. In the 12 States that do extract shelter payments from the welfare subsidy, payments generally are not made directly to the PHA.

Question: What are the advantages and disadvantages of such a system?

Answer: The advantage of a vendor payment system would be to generate regular payments to PHAs in a timely fashion. One disadvantage is that if vendor payments are made, families would not be involved in paying rent and could feel less responsible for maintaining these units than if they were making the payments directly. The families also would have less occasion to deal directly with the PHAs. In addition, they are shielded from the necessity of responsibly managing their financial affairs. Therefore, the Department would like to encourage a direct landlord-tenant relationship as much as possible in Public Housing.

Ineligible Section 8 Households

Question: What percentage of all Section 8 projects nationwide are experiencing problems in exceeding the 10 percent or 20 percent limitations on ineligible households?

Answer: A sample of 853 Section 8 projects nationwide indicates that about 5 percent of all projects exceed the 10 percent or 20 percent limitations.

Question: How many units does this represent?

Answer: Of 469,037 new and substantial rehabilitation units under lease in June 1982, 27,830 households did not receive Section 8 assistance.

Question: How many additional qualified individuals could be provided Section 8 housing if these units were made available to them?

Answer: If these 27,830 units now occupied by ineligible households were available to households eligible for Section 8 assistance, about 58,443 individuals could be housed. This number assumes that each of these new and substantial rehabilitation units would house an average of 2.1 persons per household.

Question: What steps is HUD taking in order to assure that projects are not exceeding the 10 percent or 20 percent limitation on ineligible households?

Answer: Where project owners have permitted ineligible tenants to move into a Section 8 unit in violation of the Section 8 contract, HUD reduces the number of Section 8 units in the project which penalizes the owner. Further, continuation of such actions by owners could result in termination of the Section 8 contract. Adequate procedures exist to prosecute project owners for false certifications.

Once a family is certified eligible for admission to a project and is permitted to move into a unit, there is no law or regulation by which HUD or the project owner can require the family to vacate the project. The Department expects that rent increases eventually will cause those families to relocate thereby making those units available for eligible families.

Question: According to your management information systems report issued in December, an estimated 44 percent of the projects listed show unassisted tenants occupying Section 8 units.

Answer: The cited report is designed to highlight the number of new and substantially rehabilitated projects considered to be underutilized -- i.e., less than 80 percent of reserved units occupied after more than 6 months of operation. The report for December included a total of 191 projects covering 16,858 available units. This is in contrast to a total of approximately 7,000 projects and 486,000 new and rehabilitated units available for occupancy.

While the report cited a total of 44 percent of the projects serving ineligible tenants, it should be noted that only 2,133 Section 8 units were being occupied by unassisted tenants -- or 12.7 percent of the 16,858 available units included in this report.

Partially Assisted Projects

Question: Could you please provide for the record an estimate of the total direct and in-direct subsidies associated with the average Tandem-partially assisted unit which went to construction in FY 1981 and your estimate of this cost, over the lifetime of the unit, or units going to construction in FY 1983?

Answer: An analysis of direct and indirect costs associated with the Tandem assisted Section 8 program was prepared during FY 1981. The analysis was based on the tax structure, interest rates, and tenant rent burden requirements which existed during FY 1981. The total direct and indirect costs derived from the particular assumptions used in the study amounted to $467,716 over a 40 year period.

The analysis was based on an assumed 2 bedroom unit insured under Section 221(d)(4) with a total development cost of $31,000 for a 4 person household with annual gross income of $5,000. Operating expenses, including utilities and other costs, and a household income growth rate of 7 percent also are included. A distribution of the total direct and indirect costs over the 40 year assumed lifetime follows:

Total gross rent	$677,469
Total tenant rent payment	-243,543
Total direct Section 8 subsidy	433,926
Plus indirect costs:	
Federal taxes foregone	6,348
Administrative costs	20,466
GNMA Tandem costs	6,976
Total Direct and Indirect Costs	467,716

It should be noted that the 7 percent growth factor assumed for the tenant income and rent burden over a 40 year period results in rather large estimates for income and rent in absolute terms toward the end of the 40 year period. For example, gross family income in year 1 of the analysis is assumed at $5,000, but by year 40 would grow to an estimated $69,374. Also, gross rent which is assumed at $4,774 in year 1 of the analysis would grow to $48,146 by year 40. The discounted present value of the total subsidy cost of $467,716 using a 12 percent discount rate is estimated at $56,750.

Question: Has the Department considered procedures whereby it could recapture the large Tandem subsidies and tax expenditures incurred for unassisted units?

Answer: The Tandem subsidies and tax expenditures associated with Section 8 development originally were provided to encourage the construction of rental housing. Currently, the Administration has proposed to eliminate Tandem subsidies in addition to the curtailment of new construction and substantial rehabilitation activities (except for Section 202 Housing for the Elderly or Handicapped projects). However, the construction of the partially assisted projects is based on an agreement to provide Tandem financing. Because this constitutes an obligation on the part of the Department and GNMA, the partial recapture of it potentially would cause legal problems and have an adverse effect on any future agreements the Department may wish to make.

The tax expenditure policies associated with Section 8 projects are within the purview of the Internal Revenue Service (IRS), Department of Treasury. HUD is not considering nor has it considered making any recommendation to the IRS regarding the recapture of tax expenditures.

New Construction

In the event that some portion of the new construction program is continued in FY 1983 and the outyears, several steps can be taken that would either reduce the cost of subsidized housing or enable more individuals to participate in the program. For instance, HUD could build more modest-sized subsidized housing with fewer amenities. GAO and others have noted that Section 8 housing is often better than most housing in the market area where it is located. Costly amenities are also included in newer Public Housing and Section 202 housing.

Question: What additional steps could the Department take to contain the cost growth in new construction by tightening up HUD construction standards?

Answer: The only new construction and substantial rehabilitation reservations the Department proposes to make for 1983 are Section 8/Section 202 units. In 1982, the Department is revising its policies and procedures in order to contain costs in new construction projects in accordance with HUD Notice H 81-65 dated November 12, 1981. The measures which are being undertaken include: (1) a prohibition on the use of excessive amenities (i.e., swimming pools, balconies, saunas, jucuzzis and dishwashers), (2) a prohibition on the use of unusual building configurations, (3) a limitation on the number and size of bathrooms, (4) a minimum requirement on the percentage of efficiency units in projects, (5) a prohibition on the use of two-bedroom units (except for projects designed for nonelderly handicapped people), (6) a limitation on costs not attributable to dwelling use, and (7) a limitation on commercial space. These and other measures under consideration are expected to substantially reduce Section 202 Housing for the Elderly or Handicapped construction costs.

Question: In another area, GAO found that over half of the 862 family units that they visited were underutilized. Most of this occurred due to the lack of effective incentives for project owners and managers to achieve optimal occupancy levels. GAO also cited the ineffective monitoring by HUD as a contributing cause. What is the Department's current estimate as to the number of additional individuals that could be housed in assisted housing if the units were better utilized?

Answer: The GAO study covered only 12 projects in four geographical areas. Because of this limited perspective, assertions and projections on a national basis concerning underutilization would not be reliable as no reasonable statistical foundation exists. The Department feels that current occupancy standards optimize occupancy by balancing efficient use of available space with tenant needs. The Department's records indicate that, contrary to the GAO findings, occupants generally have been selected according to procedures in the owner's management plan and families have been assigned to appropriate size units in accordance with HUD occupancy standards.

Question: Of the various new construction housing alternatives available to the Department--Section 8, Tandem and Public Housing, which do you feel is most cost effective?

Answer: The most cost effective of the new construction alternatives is the Section 8 program. Tandem financing is utilized in conjunction with Section 8 assistance. Since Tandem involves an interest "buy down" to 7.5 percent, it constitutes an additional indirect subsidy. Even with GNMA Tandem financing, Section 8 new construction is, over the life cycle of the project, a more cost effective method of providing assistance than Public Housing.

The average subsidy run-out cost for a new Section 8 housing unit financed with GNMA Tandem assistance and insured under Section 221(d)(4) is estimated at $56,750. A comparable unit under Public Housing conventional construction is estimated at $58,316. These estimates include both the direct subsidies paid by the Federal government as well as the indirect subsidies in the form of tax benefits, administrative costs, fees and the interest reduction provided through the Tandem program. All other assumptions dealing with income and expenses which have been used in the analysis are identical in their application to both Section 8 and Public Housing.

Question: Cost analyses indicate that Public Housing is cheaper in the short run, and also in the long run when off-budget costs such as tax expenditures are considered. Does the Department intend to review its stance on Public Housing to determine if additional Public Housing units should be constructed in FY 1984 and the outyears?

Answer: It is the Department's position that Public Housing represents the more costly new construction alternative. The Department proposes no new authority for the reservation of additional Public Housing units in FY 1983 and beyond because of the high development and long term costs to the Federal government. In the future, the Department plans to target housing subsidy assistance to persons rather than structures. This change in emphasis will allow more flexibility and housing choice for tenants while curtailing long term costs borne by all taxpayers.

Deobligation of Annual Contribution Authority

Obligations for Section 8 and the Public Housing programs are based on "Notification" and "Reservation" letters. These documents advise project sponsors that their projects have tentatively been selected for funding. Because notification and reservation letters are tentative, using them as the basis for obligations magnifies HUD's assisted housing activities. This method of determining obligations has caused HUD to exaggerate its assisted housing efforts for Fiscal Years 1976-1978 by $7 billion.

Question: During Fiscal Year 1981, how many assisted housing dollars were de-obligated?

Answer: The total deobligation of authority for Annual Contributions for Assisted Housing in Fiscal Year 1981 was $173.4 million of contract authority and $5,226.9 million of budget authority.

Question: What is your estimate for de-obligations in Fiscal Year 1982?

Answer: For Fiscal Year 1982, the estimated deobligation of authority for Annual Contributions for Assisted Housing shown in the 1983 Budget is $288.5 million of contract authority and $7,483.8 million of budget authority.

Question: Has HUD recently altered its method of obligating funds?

Answer: Starting in FY 1983, the Department will begin to distinguish between administrative reservations (approved applications) and obligations (contracts executed) in accordance with a directive received from the General Accounting Office.

Housing for the Handicapped

The Subcommittee has been informed that officials in the Department of Education, HHS and HUD agree that accessible units for the handicapped are in short supply.

Question: What is your current assessment as to the demand for such units?

Answer: There is much concern in this country over the special needs of the handicapped and how to best meet those needs. There are no simple methods for gathering precise data on the disabled and their needs at the present time. However, interested and innovative State and local officials have developed data collection methods suitable for their needs which are less than comprehensive studies but which still produced usable information. More detail on this subject is included in the "Report to Congress on the Housing Needs of the Handicapped" prepared in March, 1982 (see attached).

REPORT TO CONGRESS ON THE HOUSING NEEDS OF THE HANDICAPPED

U.S. Department of Housing
and Urban Development

Office of Policy Development

March 1982

EXECUTIVE SUMMARY

House Report Number 96-979, which was part of the Housing and Community Development Act of 1980, required HUD to submit a report:

> "...which examines existing data sources which provide information on housing needs and conditions of the handicapped, identifies the gaps in these sources, proposes alternative ways or sources of filling these information gaps, and identifies methods of locally assessing the housing needs of handicapped persons. The report shall include analysis of the costs of the various methods examined, the benefits and disadvantages of each method and the likelihood of its implementation at the local level. In preparing the report, the Secretary shall consult with other federal agencies which administer programs for handicapped persons, State and local officials, and handicapped consumer organizations."

The report examines several Federal, State and local data collection efforts. The report notes that interested and innovative State and local officials have developed data collection methods suitable for their needs. It concludes that there are no simple methods for gathering precise data on the disabled at the present time, regardless of the level of government. The report notes that the need to develop the "perfect" methodology should not be viewed as the linchpin in providing accessible housing for two reasons. First, creative state and local governments have undertaken less than comprehensive studies which have still produced usable information. Second, while "better" data may produce better information about how large a segment of the population is affected, it will be only one factor in the allocation of resources among competing needs.

BACKGROUND

This report was prepared in response to a Congressional request in House Report Number 96-979, which was part of the Housing and Community Development Act of 1980. In that Report, the Committee expressed concern about the capacity of state and local officials to assess and determine the housing needs of the handicapped in their communities. Congress requested HUD to submit a report:

> "...which examines existing data sources which provide information on housing needs and conditions of the handicapped, identifies the gaps in these sources, proposes alternative ways or sources of filling these information gaps, and identifies methods of locally assessing the housing needs of handicapped persons. The report shall include analysis of the costs of the various methods examined, the benefits and disadvantages of each method and the likelihood of its implementation at the local level. In preparing the report, the Secretary shall consult with other federal agencies which administer programs for handicapped persons, State and local officials, and handicapped consumer organizations."

INTRODUCTION

There is much concern in this country over the special needs of disabled persons and how to best meet those needs. However, it is difficult to obtain consistent and reliable data from which these needs may be assessed. The few existing national surveys or the non-institutionalized disabled population do not adequately address the issues relevant to determining particular needs such as housing modificaitons. They are, for the most part, general purpose surveys which have produced varying results due to differences in definitions and methodologies.

Nonetheless, it is possible to draw a general picture of the number of disabled persons in the United States and the severity of their disabilities from these surveys. Because they are national in scope, regional comparisons and trends may be drawn from the surveys with some degree of consistency. The usefulness of these data for policy-making at the state or local level, however, is somewhat limited. The data are not always broken down by state, and fewer times by city. This necessitates action by state and local officials to research the status of disabled persons in their own jurisdictions, if reliable and useful information is to be obtained.

The expresssed desire by state and local officials for more precise data on the disabled does not assure its collection. Decisions on priorities and limited resources have forced many officials to rely upon existing national data.

However, a significant number of states and localities have attempted to quantify and specify the needs of their disabled citizens. While their success has varied, their experience demonstrates that state and local officials can be very effective in developing localized estimates of the housing needs of the disabled in their communities.

There are three basic methods commonly used for gathering data on the disabled: (1) extrapolation from Census material or other secondary sources; (2) surveys of social service agencies, associations for the disabled and other groups serving or affiliated with disabled persons; and (3) direct surveys of disabled persons. Although there are other approaches to researching the needs of the disabled, these three appear to be most prevalent.

NATIONAL SURVEYS

The few national surveys which have been conducted to determine the number of non-institutionalized disabled persons in the U.S. are often used for the selection of other sample groups and for extrapolation. These surveys include: Census of the Population: Persons with Work Disabilities (Decennial); Social Security Administration Surveys of Disability (1966-78); Annual Housing Survey: Housing Modification Supplement (1978); and the Health Interview Study conducted annually by the National Center for Health Statistics.

The Census Bureau utilizes a rather broad definition of disabled but one which is only work-oriented. States and localities which lack their own data commonly rely on these data to fill the gap. The geographic breakdown by city makes the Census data more useful than the other national surveys.

The Census Bureau collects information from persons aged 14 to 64 regarding their disabilities on a decennial basis. Respondents are asked if they have a health condition or disability which limits the amount or kind of work they could do at a job and whether their health prevents them from doing any work at all. Persons who answer "yes" to either or both questions are classified as "disabled, able to work;" persons who respond that their health prevents them from doing any work at all are classified as "disabled, cannot work."

While insuring that the majority of the population will be surveyed, the Census data have some obvious drawbacks: (1) the statistics are soon outdated; (2) those persons over age 64 are not included in the survey; and (3) the general nature of the questions asked does not indicate how many of those persons defined as disabled would require modified housing or have any other specific needs.

Besides relying on the Census data for its statistics on the number of disabled persons in a specific area, a number of state and local officials have derived samples for their own surveys from the Census question regarding work impairment. The Social Security Administration (SSA) and other federal agencies have also utilized the Census data in this manner.

The Social Security Administration has conducted a number of surveys on disabled persons since 1966, the most recent being in 1978. These surveys go one step further than the Census data, by actually describing the physical and social conditions of disabled persons. Information has been gathered on items such as physical impairments, functional limitations, work disability and medical care needs. This information is used by SSA to assist in the development and administration of the disability insurance program. While questions on specific needs are not included in these surveys, it is possible to infer the need for some housing modifications from data on persons reporting problems with physical movements such as walking, stooping, crouching, etc. State officials may find this information somewhat useful in determining the general health status of disabled persons in their geographic region. However, because the smallest geographic area covered by these surveys is a multi-state region, extrapolation would be necessary to obtain more geographically specific data.

A similar situation exists with the Department of Housing and Urban Development's Annual Housing Survey (AHS), which in 1978 included a one-time Housing Modification Supplement. The data are geographically broken down into four Census regions and the largest 125 Standard Metropolitan Statistical Areas (SMSA's). The survey asked questions on existing dwelling modifications which assist a family member in using the dwelling and also on whether additional modifications would help the person move about the dwelling more easily.

While the AHS supplement does not go into detail on actual and proposed modifications, it does come closer than the other national surveys in providing information on the housing needs of disabled persons. The survey information would have been of more use to local officials if it were further broken down geographically and were included as a regular part of the Annual Housing Survey. The Department has no plans at this time to repeat the Housing Modification Supplement.

The National Center for Health Statistics also provides data on disabled persons by region and SMSA. The Health Interview Study, which is done yearly and is based on interviews conducted by the Census Bureau, is a general purpose health and health-related survey of the civilian non-institutionalized population. Statistics include estimates of acute conditions and the number of persons reporting limitations of activity, frequency of physician visits and disability days taken. Questions on functional limitations were included in the 1978, 1979 and 1980 surveys. The Health Interview Study would be useful in trying to assess the overall health status of the disabled population, but would be of limited use to state and local officials trying to determine needs and subsequent policies to address those needs.

To assist with policy-making at the federal level, an Interagency Task Force on Uniform Federal Accessibility Standards has been formed to set standards for facility accessibility for the physically handicapped for federal and federally-funded facilities. The Task Force, which consists of the Department of Housing and Urban Development, General Services Administration, Department of Defense and the U.S. Postal Service, has been working with consumer organizations for the handicapped to design physical standards which comply with the Architectural Barriers Act of 1968, as amended.

These four major surveys comprise the bulk of available national statistics on the disabled non-institutionalized population in the United States. Collectively these surveys provide a range of the number of disabled persons and limited information on the extent of their disabilities. However, the suitability of these data sources for supporting policy decisions at the local level is questionable.

STATE AND LOCAL DETERMINATIONS OF NEED - GENERAL DISCUSSION

In view of this void of necessary information at the federal level, state and local officials must decide how they will assess the housing and community development needs of their disabled citizens. As was previously noted, the availability of financial and technical resources needed to accomplish this task is often the deciding factor on whether or not data will be collected.

There are a number of ways for state and local officials to approach this problem. Comprehensive needs assessments could be conducted on a state or local basis, thus providing information on a variety of topics such as transportation, vocational training, education and housing. A survey of this type could be conducted through the mail or by personal interviews. It has been found that personal interviews yield a higher response rate and more precise responses than a mailed questionnaire, but they are considerably more expensive to conduct.

Another variable in a survey such as this is whether an attempt will be made to reach all disabled persons within a specific geographic area or whether a sample group will be used. The first method would require the cooperation of service agencies, associations for the disabled, and all other groups having contact with disabled persons to identify their clients/members in order that they can be counted or surveyed. In addition, media exposure would probably be advisable in order to reach those persons not having contact with any of these groups. Depending on the response rate, this survey method may produce more precise information on the extent of need for certain services than would a sample group survey.

Another alternative to filling the information gap is to investigate areas of need singularly, such as identifying only those disabled persons in need of modified housing. It has been argued that the more focused a survey is on a particular subject, the more accurate information it will produce on that subject.

The major problem encountered, regardless of the technique employed, is the initial identification of the universe of disabled persons in the locality to be surveyed. Surveying on a sample basis will still require identification of the total number of disabled persons from which a group will be selected and a sampling strategy developed. While acknowledging the difficulty in collecting these data, it should be noted that the ability to make general conclusions on the basis of the data collected is reduced as less rigorous survey techniques are used.

Regardless of the approach taken, state and local officials will first have to decide how they will meet the needs of the disabled. They then must be willing to allocate the resources necessary to assess those needs. The following surveys are examples of attempts at the state and local level to do precisely that.

EXAMPLES OF STATE AND LOCAL STUDIES

The State of Minnesota conducted a state-wide assessment of disabilities in 1976 to estimate the number of disabled persons in Minnesota. The household survey was conducted and funded by the Minnesota Division of Vocational Rehabilitation, together with 17 other state agencies. A sample of 2,894 household units was selected by a probability sampling procedure similar to that used by the Census Bureau. The members of this sample group were individually interviewed in order to ascertain the severity and nature of their disabilities and to identify unmet needs. Although the results of the survey were not specific in terms of identifying those in need of modified housing, the data did indicate a need for special education, vocational training, and counseling. Additional information was also collected on family structure, head of household, income, employment status and type of disability.

This survey was successful in gathering general information on the status of disabled persons in Minnesota and in discovering some areas of general need. Public and private human services agencies have found the data quite useful. The lack of information on housing is more reflective of the survey questions rather than a weakness in technique.

The estimated cost of this survey was approximately $250,000. The major expense was attributed to training and paying interviewers. While increasing the total project cost, one-to-one interviewing assures a higher response rate and more precise responses.

Survey by personal interview appears to be a feasible and successful method of ascertaining needs at the local and state level. Because fairly vigorous survey techniques are used, the data results may be generalized with a certain degree of confidence. Localities with limited financial resources may be able to enlist volunteers to assist with interviews, thus reducing total project costs.

The State of Maryland also conducted a state-wide survey of disabled persons. The 1978 Maryland State Legislature appropriated $30,000 to study the needs of non-retarded, severely handicapped persons residing in the State. A survey was conducted between August 1980 and March 1981 under the sponsorship of the Epilepsy Association of Maryland. Subcontracts were issued to local service providers to provide lists of known clients either in their records or in the caseload of other direct service providers. Surveys were then distributed to these clients. In addition, an extensive media campaign was launched to advertise the survey to those not receiving services from any of the subcontractors.

Approximately 20,000 surveys were mailed and 1,467 were returned. The low response rate (7%) was attributed in part to the inability of state and local agencies, such as the Department of Social Services, to make their own data compatible with the survey requirements without inordinate expenditures. These agencies would have had to review their files individually in order to identify persons meeting the survey definitions. Therefore, it is possible that a large percentage of surveys went to all clients, rather than only those with disabilities.

This particular problem was mentioned by a number of state and local officials as being a barrier to identifying disabled persons on their service rolls. Not surprisingly, one of the survey recommendations was for those agencies providing services to disabled persons to maintain a minimum data set in order to determine periodically if services estimated to be needed are being provided. Minimal inclusions would be residence, demographic background, eligibility for services and functional limitations. A similar request for standardized demographic information was made by the Baltimore County Coalition for Handicapped Persons after they conducted an employment study of disabled persons during 1977 and 1978.

Maryland attempted to reach and survey through the media those persons who were not receiving any type of services. Those persons who responded to media publicity were sent a questionnaire. The low response rate suggests that this was not particularly effective. This seems to support the expression of need by many for first-hand field investigation which tends to yield a higher response rate and more precise information.

Because the respondent sample was not representative, it would be wrong to make generalizations about the nature of disabilities and associated service needs among all non-retarded disabled adults in Maryland. However, those who administered the survey felt that because persons in the respondent group took the time to self-report their disabilities, there may be an increased likelihood to utilize services if they were available.

Another method of gathering data on disabled persons is exemplified by The Center for Independent Living in Miami, Florida. In 1979, the director of the Center undertook a "census" of disabled persons in Dade County. Numerous social service agencies, associations for the disabled, and other groups serving the disabled were asked for available statistics on their clients or members. The available numbers were then added together, controlling as much as possible for the overlap of services, and from this information an approximation of the disabled population was derived.

In terms of financial burden, this was not an expensive undertaking. The director and a limited number of staff persons worked on the project over a period of several months with a significant amount of work being conducted by telephone. It is impossible to quantify precisely the cost of this project due to the non-rigorous survey techniques which were employed.

The survey accomplished its goal of determining the number of disabled persons age 16 and above in Dade County. However, the results should be viewed only as an approximation of the total disabled population based on three limiting factors: (1) those persons not receiving services were left out of the census; (2) those persons receiving services from several places may be counted twice; and (3) non-rigorous survey techniques were used.

While a survey of this type may easily be undertaken at the local level and at a low cost, its usefulness in policy decisions would be determined by the use made of it. What the survey does provide is an approximation of the number of disabled persons.

Another display of interest in researching the needs of the disabled in Florida comes from the State level. Approximately $100,000 has recently been allocated from the Governor's discretionary funds to survey the deaf population in Florida.

The City of New York has developed an innovative and seemingly successful approach to specifying and quantifying the housing needs of disabled persons. In February 1980 the Handicapped Housing Data Bank was created with Community Development Block Grant funds under the administration of the City Department of Housing Preservation and Development and the Mayor's Office of the Handicapped. The Bank has attempted to gather data on the special housing needs of disabled persons in New York City and to place them in or at least inform them about available housing.

In doing this, the Bank has two primary functions. The first is outreach through any available medium to encourage disabled persons to register with the Bank. Information such as income, accessibility, and needed modifications are solicited from each person who registers. The second function of the Bank is to collect information from housing sponsors in both the public and private sectors regarding the availability of housing units, special unit modifications, rental procedures, etc. Much emphasis is placed on Section 8 new construction and rehabilitation due to the fact that approximately 90% of those persons registered with the Bank are low-income. Subsequently all of this information is entered into a computer and potential matches are derived.

This appears to be a highly successful method of maintaining information on the housing needs of disabled persons in New York City and attempting to meet those needs. Unlike the other survey data, the Bank provides ready information on those in need of housing, what their particular needs are, and what is currently available in the housing market. The major obstacles to the success of the Bank are the exceedingly low vacancy rates in New York City and the fact that when housing becomes available it is often turned down due to its location. Disabled persons are as judicious about where they live as the non-disabled.

In terms of expense, the Bank will operate on a grant of $126,000 in 1982. A substantial portion of this is for computer costs.

CONCLUSION

The state and local efforts discussed in this report are by no means the only attempts to assess the needs of the disabled. They are cited for their methodologies and approaches to the problem. They also reflect some of the difficulties encountered in trying to quantify the number of disabled persons and their needs. These problems are often due to the nature of the questions asked, the availability of data, and the amount of technical and financial resources being spent on the project.

Because there is no one shelf that from which data on the needs of the disabled may be pulled, state and local officials will have to be innovative, if they are to succeed. As an initial step, state and local officials may want to standardize and, if possible, centralize a minimum set of the data kept by various service agencies on their disabled clients. This would allow for quick review in trying to determine what services are most heavily provided for and what areas are lacking.

The Handicapped Housing Data Bank also appears to be a feasible method of determining the need and desire for modified housing at the local level. Extensive community outreach would initially be needed to alert disabled persons of the Bank's existence; however, this could be accomplished by service agencies, associations for the disabled, and the media. Once in operation, data would be available on those persons actually desiring modified housing, rather than merely statistics which represent potential participants.

Those communities with limited resources may find this approach particularly effective. If officials are aware of a certain need, but are unsure of its extent, this appears to be a cost-effective way of quantifying that need rather than conducting a general needs assessment survey.

In conclusion, there are no simple methods for gathering precise data on the disabled at the present time, regardless of the level of government. This does not mean that the need to develop the "perfect" methodology should be viewed as the linchpin in providing accessible housing. First, creative state and local governments have undertaken less than comprehensive studies which have still produced usable information. Second, while "better" data may produce better information about how large a segment of the population is affected, it will be only one factor in the allocation of resources among competing needs.

SOURCES CONSULTED

Bureau of Social Science Research, Washington, D.C.

Bureau of the Census, Department of Commerce, Washington, D.C.

Center for Independent Living, Berkeley, California

Center for Independent Living, Dade County, Florida

Department of Health and Human Services, Division of Long Term Care, Washington, D.C.

Department of Health and Human Services, Social Security Administration, Baltimore, Maryland

Epilepsy Association of Maryland, Baltimore, Maryland

Florida Department of Veteran and Community Affairs, Housing Division, Tallahassee, Florida

Governor's Commission On Employment of Handicapped, Seattle, Washington

Minnesota Department of Economics Security, St. Paul Vocational Rehabilitation Division, St. Paul, Minnesota

Minnesota State Council For the Handicapped, St. Paul, Minnesota

Natonal Association of Retarded Citizens, Washington, D.C.

National Center for Barrier Free Environment, Washington, D.C.

National Center for Health Statistics, Hyattsville, Maryland

New York State Department of Social Services, Albany, New York

Rehabilitation Services Division, Department of Human Services, Little Rock, Arkansas

Settlement Housing Fund, Housing Data Bank Referral Service for the Handicapped, New York, New York

State of Maryland Department of Health and Mental Hygiene, Developmental Disabilities Council, Baltimore, Maryland

United Cerebral Palsy, Washington, D.C.

Managing and Servicing Mortgages

At last year's hearings, I cited a January 16, 1980 GAO Report that concluded that foreclosures of HUD multifamily mortgages were taking an average of over 2-1/2 years to accomplish. Delays were being encountered at various stages, including HUD's Office of General Counsel and at the Department of Justice. At that time, you stated that "considerable progress" had to be made.

Question: Since that time, what has been the actual experience? How many foreclosures have been initiated during FY 1981 and FY 1982 and what percent are completed?

Answer: A total of 91 multifamily mortgages were foreclosed and title acquired in Fiscal Year 1981. During the first 7 months of Fiscal Year 1982, the Department has acquired title to 34 projects. Since records showing a referral date were not maintained in the past, the percentage of foreclosure actions completed in comparison to the mortgages referred for foreclosure in Fiscal Year 1981 and 1982 is not available.

Question: Please outline any current effort you are making to secure statutory authority for faster foreclosures.

Answer: Considerable progress is being made in the handling of HUD multifamily mortgage foreclosures. The manual system of tracking foreclosures is being replaced by a computer system. This will provide ready access to information about the cases referred for foreclosure and enable timely follow-up on the progress being made in the handling of a case.

Also, in order to eliminate some of the delays encountered at the Department of Justice, discussions have been held by HUD legal staff with representatives of the Office of Management and Budget (OMB) and the Department of Justice. Hopefully, this will result in HUD attorneys being able to have more direct responsibility for foreclosure actions such as actually filing complaints and making court appearances.

In addition, a reorganization of HUD's Office of General Counsel now enables more HUD attorneys to work on foreclosures. As a result, 26 foreclosures were forwarded to the Department of Justice during March 1982. The Office of General Counsel is completing the regulations which are necessary in order to implement the Multifamily Mortgage Foreclosure Act. This is expected to "revolutionize" the handling of foreclosures.

Question: What goals has HUD established for meeting this demand over the next several years?

Answer: The goals, as included in the budget request for the Housing for the Elderly or Handicapped program, reflect $50 million for 1,035 units in 1982 and $40 million for 945 units in 1983.

Question: How many units were built for the handicapped in Fiscal Years 1981 and 1982 under the Section 202 and Section 8 programs?

Answer: In 1981, 4,602 Section 8 units and 1,693 Section 202 units were completed for the handicapped. Data are not yet available for 1982.

Question: What do you estimate it will cost to convert an average standard apartment unit so that it would meet the needs of a person in a wheelchair, including accessibility from the outside?

Answer: The average cost of converting a typical existing apartment unit to meet the needs of a person in a wheelchair are estimated to be $3,120 for a high-rise unit and $2,860 for a garden walk-up unit.

FHA Insurance Programs

Question: What are HUD's plans for collecting mortage insurance premiums monthly on all FHA insurance programs?

Answer: The Department is in the process of implementing Section 530 of the Housing and Community Development Act of 1980 which requires that premiums be collected promptly from mortgagees upon receipt from mortgagors rather that holding those collections in escrow accounts for annual payment. Servicers will be required to remit all premiums to the Department that currently are maintained in escrow accounts. The new procedures will be used for premium collections on all loans that have insurance-in-force prior to the start of 1983.

Question: What would be the amount of the first year one-time collection in recurring annual savings?

Answer: This change is expected to generate one-time receipts of $222 million representing the amount of premiums currently held by loan servicers in escrow accounts. This amount, if invested at the current interest rate, could generate up to $25 million annually.

FHA Mortgage Insurance Programs

In FY 1982, the Congress provided $40 billion for FHA's authority for new insurance commitments. In FY 1983 you are asking for a limitation of $35 billion. GAO seems to believe that, under existing conditions, your request should be sufficient to accommodate the expected demand. Evidently you agree with this assessment.

Question: In the event that economic conditions cause the demand to exceed the $35 billion ceiling, would the Department request a change in the ceiling?

Question: Although commitment ceilings can't control aggregate loan activity, they do not by themselves assure that available credit will go to those most in need. If,in, fact the ceiling is established below the effective demand level, what priorities will HUD use in allocating insurance commitments?

Question: When will these priorities be established and will they be applied at the beginning of FY 1983 in order to provide a consistent policy for the granting of credit?

Answer: Should it appear that demand would exceed the $35 billion level, the Department would, of course, notify the Appropriations Committees pursuant to current report directions. It is not possible to forecast, however, as to whether or not a request would be submitted to raise the ceiling. No priority system for allocating FHA credit has been established at this time and we do not anticipate a need for allocating credit, based on the level of FHA credit activity projected. If, in fact, we later find the demand for credit is likely to exceed the amount approved for FY 1983, a decision will be made to either ask for an increase or develop a plan for future allocation.

Question: Since reserve funds from FHA are invested in U.S. Government securities, thus reducing the cost of borrowing to the Treasury, what savings would the Treasury forego if FHA is restricted to a constant $35 billion commitment ceiling through Fiscal Year 1987?

Answer: A $35 billion insurance commitment ceiling through 1987 is not expected to have any impact on Treasury savings. The insurance commitment level has no immediate effect on cash balances.

Question: Given the way the Fund works, how would reducing FHA activities reduce Federal credit requirements?

Answer: FHA insurance commitments are part of Federal credit and therefore any reduction in FHA activity reduces the total Federal credit budget.

HUD-Acquired Multifamily Housing Projects

Question: How much did HUD spend in Fiscal Year 1981 to operate, maintain and repair its acquired multifamily housing projects?

Answer: In Fiscal Year 1981, $113.8 million was spent for operating, maintenance and repair expenses of HUD-acquired multifamily projects.

Question: How does this relate to standards for operation, maintenance and repair of properties that are in the private sector?

Answer: Departmental standards for the management of HUD-owned multifamily projects are comparable to those used by the private sector. However, there are additional statutory requirements that affect the management and operation of projects and add to the expense of managing and disposing of these types of projects.

Question: What was your average unit cost?

Answer: As of February 28, 1982, the average daily holding cost per unit for HUD-owned multifamily projects was $13.74 which was comprised of the following items:

Maintenance and Operating Costs	$11.32
Depreciation	4.34
Management Fees	.24
Taxes	1.43
Subtotal	17.33
Rental Income	-3.59
Total	13.74

Question: What steps is HUD taking to reduce operating and maintenance costs on acquired multifamily projects?

Answer: Three major steps have been taken to reduce operating and maintenance costs of HUD-owned multifamily projects. They are: (1) the establishment of a "repair by purchasers" program, (2) a turnaround goal of 6 months from acquisition to the sale of a project, and (3) new debt collection efforts to reduce costs by curtailing rental delinquencies and collecting funds due the Department.

Repairs by the purchaser eliminate the need for the Department to fund repairs. A reduction in the time a project is owned reduces maintenance and operating costs. The efforts to curtail rental delinquencies and collect funds due the Department will require that attention be given to functions such as securing prompt payment of current rents and collecting delinquent rents from former tenants.

Managing and Servicing Mortgages

Question: What impact does HUD expect that contracting out the debt collection function on mortgages will have on reducing delinquencies and foreclosures?

Answer: Contracting for debt collection functions is expected to result in increased revenue to the Department and reduced delinquencies and foreclosures. Since the contractor's fee is based on collections made (i.e., only paid from full mortgage payments collected), the fees which are collected are based directly on the incentive to collect. The nationwide average for Departmental collections of outstanding debt for the Multifamily HUD-held inventory prior to March 1982 was approximately 15-20 percent of the debt. The pilot contract for Region III alone has shown an approximate 55-65 percent collection rate in the first two months of operation. The Department, therefore, is optimistic that it will achieve similar results on a nationwide basis.

Based on the same factors of payment to the contractor, fees that are received are derived from those accounts serviced and collected. If an account is delinquent and no payments are collected, the contractor will have no income from that account. Likewise, when an account goes into foreclosure, servicing is disrupted and no income is derived from that account. It is, therefore, in the best interests of the contractor to bring the loan accounts current and keep them current and out of delinquency and foreclosure and to maintain them as income producing projects.

Question: How much will it cost HUD to pay for these contracting services and will the benefits outweigh the costs?

Answer: It will cost HUD approximately $13.2 million per year for nationwide contracting services after full implementation which is expected by the end of Fiscal Year 1983. The benefits that will be derived from increased revenue and reduced delinquencies and foreclosures will significantly outweigh these costs.

Question: Have any cost/benefit studies been made?

Answer: A cost/benefit study is being made in connection with the nationwide contract which is planned to be executed early in Fiscal Year 1983.

Question: Last year, we discussed the issue of completing an IRS study to measure taxpayers compliance levels in recapturing additional depreciation expenses. Has this study, which was scheduled to be completed by the end of 1981, been finished?

Answer: The Internal Revenue Service (IRS) has not yet completed its analysis of HUD supplied data on foreclosures, acquisition of deeds and changes in ownership of HUD insured multifamily housing projects.

Question: If so, what were its findings and what action has been taken or is planned?

Answer: Although the final study is not completed, an interim report as of March 1, 1982 showed that IRS field offices had submitted reports on 22 changes in ownership cases. The adjustments on these cases totaled $11.6 million with related tax increases on partner returns estimated at $3.7 million. The interim data indicate that the joint effort between HUD and IRS should be continued.

Condominium Conversions of FHA Rental Housing

You are proposing to lift restrictions on condominium and co-op conversions of FHA-insured rental housing. In March, HUD announced that it was planning to drop the ban on conversion of unsubsidized projects with rents below 125 percent of the Section 8 existing housing fair market rents.

Question: When does HUD anticipate issuing the specifics on this new condominium/co-op conversion policy?

Answer: The Department has under internal clearance separate instructions covering condominium conversions and cooperative conversions and expects to issue them in the near future.

Question: What subsidies did HUD perform to determine the potential impact on displacing tenants in those areas which have a shortage of rental housing?

Answer: No studies have been undertaken for the specific purpose of evaluating displacement in tight housing markets. However, the Department conducted a survey in January 1980 of current and former residents of buildings converted to condominiums and cooperatives in 12 metropolitan areas. Data from that survey suggests some tenants are displaced. However, in the 1980 Housing and Community Development Act, the Congress stated its belief that this issue is the responsibility of State and local Government.

Question: Is the Department also studying the option of converting subsidized projects under certain conditions?

Answer: Yes. Review of this option is at a very preliminary stage of discussion. HUD intends, if such conversions are permitted, to prohibit involuntary displacements and allow subsidies to remain with the residents of the projects for their continued benefit.

Homeowner Deductions and Housing Payments

Question: Please provide for the record a chart showing the tax expenditures associated with homeowner mortgage interest and property tax deductions from calendar year 1975 through 1981. On the same chart, please provide the amount of Assisted Housing payments during the same time period.

Answer: The Office of Tax Analysis of the Department of Treasury has reported the following homeowner deductions of mortgage interest and real estate taxes during the period of 1975-1981.

HOMEOWNER TAX EXPENDITURES

CALENDAR YEAR	If Deducted Separately		Combined	Net Separate Deductions	
	Mortgage Interest	Real Estate Taxes	Deductions of MI & RET	Mortgage Interest	Real Estate Taxes
	(Dollars in Billions)				
1975	$4.5	$3.4	$7.4	$4.2	$3.2
1976	5.3	4.4	9.0	4.9	4.1
1977	4.4	3.9	7.6	4.0	3.6
1978	8.0	5.8	12.8	7.4	5.4
1979	11.2	7.0	17.2	10.6	6.6
1980 a/	17.6	8.3	25.3	17.2	8.1
1981 a/	21.6	9.6	30.6	21.2	9.4

a/ A revised methodology was used in 1980 and 1981 making comparisons with prior years difficult. In prior years, the amount of taxes lost as a result of the deductions was the basis for the estimates for 1980 and 1981. The "tax expenditures" were computed on the basis of the equivalent direct cash payment required to produce the same degree of subsidy. This results in a somewhat higher estimate than the subsidy that would have been estimated under the prior procedure, but the amount of the difference is not known.

Outlays for the Section 235 Homeownership Assistance program normally are reported on a fiscal year basis and annual outlay data exists for this program since its inception on that basis. The calendar year data as shown below is available for the period 1977 through 1981 only.

CALENDAR YEAR	SECTION 235 HOMEOWNERSHIP OUTLAYS
1975	NA
1976	NA
1977	$0.121
1978	0.104
1979	0.099
1980	0.131
1981	0.223

NA Not Available.

Crime Prevention in Public Housing

Four years ago HUD issued a report concerning crime in Public Housing. In that report, several individuals criticized HUD for its failure to recognize security as an integral function of providing housing.

Question: What has HUD done in the interim to assure that Public Housing Authorities will have adequate resources to perform the necessary security duties?

Answer: HUD is aware that security is a major problem in Public Housing. The primary avenue for the provision of security services rests with the respective localities. Each Public Housing Agency has entered into a Cooperation Agreement with its local government which allows for the provision of the same level of services (e.g., police, fire, etc.) for Public Housing project residents as are provided for other residents in that jurisdiction.

In addition, HUD implemented an Anti-Crime Program in FY 1979 which runs through FY 1982. This program, known as the "Public Housing Urban Initiatives Anti-Crime Program" is an interagency effort to address crime and vandalism in 39 Public Housing Agencies.

HUD also has more recently implemented programs which address, in varying degrees, the security needs of Public Housing Agencies across the country. These HUD programs include the following:

1. Comprehensive Improvement Assistance Program (CIAP). Security is an eligible cost under CIAP. Housing authorities may use CIAP funds to implement both hardware and software improvements for activities which can assist in the reduction of crime and vandalism.
2. Community Development Block Grant (CDBG). The Housing and Community Development Amendments of 1981 have increased the flexibility that local jurisdictions will have in utilizing CDBG funds. Under current regulations (24 CFR 570.201(e)) regarding eligible public services, CDBG funds can be used for tenant and protective services under certain circumstances.

Question: Please provide for the record the amount of Federal and the amount of local funds targeted for security services at Public Housing Authorities in FYs 1979, 1980, 1981 and 1982.

Answer: Protective services constitute about 2 percent of non-utility expenses. Data on the specific funds targeted for security services are not available. Operating Subsidy payments to a Public Housing Agency are based upon the level of expenditures in its base year before implementation of the Performance Funding System (PFS) formula. The PFS does not provide for changes in service levels, but to the extent that a PHA had protective/security services in its base year, the cost of these services has been incorporated into its allowable expense level and increased by inflation.

Renewal of Section 8 Contracts

In March 1981, GAO recommended that the Secretary study a variety of methods, including economic incentives and contractual sanctions to encourage project owners under the 5 year assistance contracts to continue in the Section 8 program.

Question: What has been the history of renewals on Section 8 contracts having the 5 year opt-out clause?

Answer: As of June 18, 1982, there had been no 5 year opt-out activity. However, the 1983 Budget assumes 1,000 units of 5 year opt-outs in both 1982 and 1983. Procedures for providing Section 8 Existing Certificates to affected families are being developed and are expected to be completed shortly. Interim procedures have been developed for dealing with special cases until the final procedures are effective.

Question: What action has the Department taken on this recommendation? Based on the decision to move to a Modified Certificate program, what is the Department's current position on renewal of these 5 year contracts?

Answer: The Department is not encouraging or discouraging project owners to continue under the Section 8 New Construction and Substantial Rehabilitation programs. However, project owners with

GNMA Tandem assistance (7.5 percent mortgages) who wish to opt-out of the program will be allowed to retain the low interest mortgages.

Contract with the National Institute of Building Sciences (NIBS)

Last year, the Subcommittee instructed you in Senate Report 97-163 to contract with National Institute of Building Sciences (NIBS) for a study which would provide for the analysis of current Federal mobile home construction and safety standards and recommendations for additional research to improve the scientific and technical basis of these standards. A second study would be devoted to creating a system which would annually review and assess the following year's research agenda.

Question: What is the status of these agreements with NIBS.

Answer: The status of these studies is as follows:

Study of and Recommendations for Manufactured Housing Standards. The Federal Manufactured Housing Construction and Safety Standards were first promulgated in 1976, based substantially on a then-existing voluntary consensus "Standard for Mobile Homes." In the ensuing six years, HUD has carried out a number of research studies addressing various technical issues in these standards. As part of this research program, we commissioned the National Institute of Building Sciences (NIBS) to review all of the individual consensus standards referenced in the Construction and Safety Standards to assess their importance in this document. This study was completed in 1980.

Using the results of this research, we developed and published, last year, a draft of a proposed general revision to the Construction and Safety Standards. Based on the comments received in response to this draft and working closely with representatives of the manufactured housing industry, we are now nearing completion and promulgation of the first general revision of these standards.

We believe, however, that further direct involvement with the development of these standards is not consistent with the Administration's program to reduce the number of Federal regulations. We concur with Recommendation No. 7 in the NIBS report, "Recommendations for Change -- Phase II," which states:

> "7.0 Manufactured Housing (Mobile Home) Construction and Safety Standards
>
> The Department of Housing and Urban Development (HUD) should encourage, through the voluntary standards process, the development of manufactured housing (mobile home) standards that can be referenced by HUD as the federal Manufactured Housing Construction and Safety Standards."

Therefore, once the current revision is promulgated, we propose to move as quickly as possible to transfer the further development and management of these standards to the private sector as a voluntary, consensus standard. The analysis of these standards will then become a proper management responsibility of the private sector organization developing this standard.

We believe that this action will eliminate the need for HUD to continue the directed research program which has supported the development of the current Construction and Safety Standards. Any recommendations for Federally-supported research which might result from a private-sector review of the standards can be addressed within the context of the regular HUD research agenda.

Research Agenda. The development of this research agenda is the subject of the second study recommended in Senate Report No.97-163. This agenda is developed with input from a number of sources. For example, NIBS has already contributed through three recent and current projects:

First, in the development of the Congressionally-mandated Rehabilitation Guidelines, funded at a total of $82,000, NIBS identified a number of additional topics for future Guidelines which could assist the industry and the public. We expect to initiate research studies addressing some of these topics as funds become available.

Second, under a $55,000 HUD contract, NIBS organized and managed a recent conference on rehabilitation technology and research needs, developing recommendations for additional research in this area. These, too, will be followed up to the extent that funds permit.

Finally, we have just succesfully completed a second major conference, this one on " The Next Generation of Housing Technology," organized by NIBS under a HUD agreement, Almost 200 leading experts in the field of housing -- builders, public officials, research scientist, and manufacturers -- addressed the current state of housing technology and identified opportunities for research leading to future technical improvements. This conference was funded at a cost of $75,000.

Building upon this base, and in direct response to the recommendation in Senate Report No. 97-163, we are now asking NIBS to survey the housing industry to identify, from an industry perspective, those areas of building technology where Federally-supported research can best serve the industry. We will use these recommendations, the material developed in the earlier conferences, and research requests from our operating programs in the development of the specific research project agenda to be proposed in future requests for appropriations. The Department is also planning to contract with NIBS for a study on the National Products Approval System. The actual amounts of these contracts will be determined on the basis of the scope of work negotiated between the Department and NIBS. The two activities combined will approximate $100,000.

Since the new NIBS study on suggested research topics will develop general recommendations rather than a list of "project level" ideas, it will not create a situation where NIBS would be involved in developing recommendations for specific projects which HUD might subsequently request it to undertake.

We believe that these actions will continue to permit us to make the maximum use of the expertise available through NIBS without compromising our ability to call upon them for specific research support in the future.

Mortgagee Monitoring

On June 9, GAO issued a report entitled "HUD Should Strengthen Mortgagee Monitoring to Reduce Losses." That report makes several recommendations as to where HUD could strengthen its monitoring and review procedures.

Question: Could you please list the major recommendations in that report and indicate what HUD is doing in order to comply?

Answer: The recommendations and what HUD is doing in order to comply are as follows:

a. Recommendation No. 1. The Secretary of HUD should direct the Office of Single Family Housing and all HUD area offices to follow existing HUD procedures on selecting mortgagees for origination and servicing reviews. Require that area offices submit, in advance, the required quarterly mortgagee review itineraries and document reasons why mortgagees were selected for servicing reviews.

Response to No. 1. Proposed revisions to the HUD Handbook emphasize the need for Area Offices to follow all outstanding instructions. The proposed revisions also require that the reasons for the selection of the mortgagees be documented. Where the selections are not acceptable, the Office of Single Family Housing will be required to advise the Area Offices to substitute other mortgagees. The handbook instructions have been drafted and are being prepared for internal clearance by the end of July 1982.

b. Recommendation No. 2. The Secretary of HUD should revise the methods the Office of Single Family Housing and HUD regional offices use to set area office mortgagee-servicing review goals to ensure that factors such as the number of mortgagees and their total HUD-insured loan portfolio, other area office workload priorities, and review staff availability and experience levels are considered.

Response to No. 2. The method of establishing Area Office mortgagee servicing review objectives has been revised and incorporated into a proposed revision to the HUD Handbook which is being prepared for clearance. These instructions include consideration of the size of the mortgagee's HUD-insured loan portfolios and the availability and workload of the staffs in the Field Offices.

From a loan origination viewpoint, the Department is concentrating its activities on those lenders who generate the most single family business and who have the highest rate of foreclosures. Statistical information as well as input from local Field Offices on possible underwriting problems serve as the basis for selecting the lenders to be reviewed.

c. Recommendation No. 3. The Secretary of HUD should reassess how mortgagee reviews can be conducted most effectively to cover active mortgagees and evaluate alternative ways to provide necessary review coverage. One alternative would be for HUD to use area office loan specialists to assist mortgagee field representatives in conducting origination reviews, especially for mortgagees that both originate and service loans. This alternative would be most helpful in areas where mortgagee field representatives cannot provide adequate coverage of originating mortgagees.

Response to No. 3. As a result of a recent reorganization, the mortgagee monitoring functions have been merged with the appropriate program origination and servicing divisions. Through this change, the Department has developed a more cohesive administration of the oversight of mortgagees. However, the Department is reluctant to take the further step of combining origination and servicing functions because of current staff constraints and the diverse expertise necessary to perform these responsibilities effectively.

d. Recommendation No. 4. The Secretary of HUD should require the Office of Single Family Housing to play a stronger role in the quality control of mortgagee reviews by requiring more timely reporting of review findings to mortgagees, more follow-up reviews on prior mortgagee deficiencies, and the use of coordinated reviews to monitor the largest mortgagees or those active in HUD-insured programs nationwide.

Response to No. 4. The timely release of reports to the mortgagees was emphasized where necessary in the Regional evaluation of reviews performed by the Field Offices during 1981. Also, new HUD Handbook instructions which are being prepared for clearance will emphasize the necessity for prompt follow-up measures to ensure that mortgagees are making the required corrections.

The Department previously advised the GAO that it would schedule more coordinated reviews in accordance with the availability of staff and travel funds. However, because of limited funds, such reviews have not yet been conducted although it would be desirable to conduct some coordinated reviews during the latter part of this fiscal year.

For reviews of mortgagee origination practices, all reports are processed in Headquarters and steps are being taken on a continual basis to achieve GAO's desired objective.

Energy-Efficient Housing Equipment

On September 16, 1981, GAO issued a report calling for HUD to take a more active role in assuring that energy-efficient and cost-effective equipment be installed in new homes which depend on Federal assistance and financing.

Question: Could you please respond to the recommendations made in that report and indicate what HUD is doing, if anything, to implement them?

Answer: In November 1980, HUD revised its minimum property standards for one and two-family dwellings which provided for increases in thermal criteria and required all accepted types of construction to be thermally improved in most climatic areas. These standards, although pre-dating the General Accounting Office (GAO) report, effectively implemented the GAO recommendations. The revised standards are as follows:

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Office of Housing
Washington, D. C. 20410

REVISION NO. 6a.f (Final) "Minimum Property Standards for One- and Two-Family Dwellings", 4900.1

November 1980

This transmits revised paragraphs for the captioned document. The revision increases our thermal criteria and requires all accepted types of construction to be thermally improved in most of our climatic areas. The major changes from Revision No. 6a to Revision 6a.f are requirements which: (1) provide amendments to insulation standards for areas of less than 3000 heating degree days; (2) clarify the external air supply required for fireplaces in terms of combustion needs; (3) clarify the intent of a safe air supply of the requirement for external combustion air for furnaces and hot water heaters energized by fossil fuel; (4) provide alternate criteria permitting homes with certain types of heat pumps to be insulated to levels required for fossil fuels. The other requirements of Revision 6a remain.

The revision is applicable to all HUD field office jurisdictions and is effective November 11, 1980.

Changes are indicated by an asterisk *. The attached pages should be inserted in the captioned document and the corresponding old pages removed. Page 6-7-7 indicates a page number change. The Gross Wall Figure 1 graph has not been changed.

c. Roof Deck. When a concrete slab, steel deck, wood plank, or other roof deck material is also the finish ceiling surface or the space below is not ventilated, a vapor barrier having a vapor permeance of not more than 1/2 perm shall be installed near the warm side of the construction.

Joints at sides and ends of fiberboard roof deck shall be designed to provide effective sealing of vapor barrier.

d. Slabs-On-Ground. (See 507-2.2 and 603-7 for requirements).

e. Crawl Spaces. Ground surface treatment material having a vapor transmission rate not exceeding 1 perm shall be installed as required by 403-3 and 601-16.2b(4).

607-2.5 Special Conditions

a. In locations where the foundation is subjected to a high water table or where surface or ground water drainage may present a problem, additional precautions will be required.

b. Where the specific site conditions indicate that well drained soil exists or where ground water will not present a problem, lower standards may be permitted.

c. In dry regions with an average annual precipitation of less than 15 in., where no problems exist on the site under construction, lower standards for moisture protection may be permitted.

607-3 BUILDING INSULATION

607-3.1 General

a. Insulation of buildings shall be such as to assure conservation of energy, economy of operation and comfort to the occupants.

b. INSULATION MAY BE OMITTED FROM SEASONAL HOMES, NOT INTENDED FOR YEAR ROUND OCCUPANCY, AT THE DISCRETION OF THE HUD FIELD OFFICE WHOSE DETERMINATION SHALL BE BASED UPON CLIMATIC CONDITIONS AND THE PROPOSED SEASON OF OCCUPANCY OF THE PROPERTY.

607-3.3 Continued

Notes to Table 6-7.1

*(1) For areas of 5000 heating degree days (HDD) or less, houses using heat pumps may be insulated to levels required for fossil fuels. In areas above 5000 HDD, houses using air-to-air heat pumps shall be insulated to levels required for electric resistance (ER) heating. The following exceptions to this requirement are:

a. Water source heat pumps.

b. Fossil fuel supplemental heat.

c. Units with multiple capacity.

  (1) Dual compressors
  (2) Modulating compressor speed
  (3) Dual speed compressor

d. Uni-directional (such as annual cycle energy systems (ACES)).

e. Units with balanced heating and cooling load.

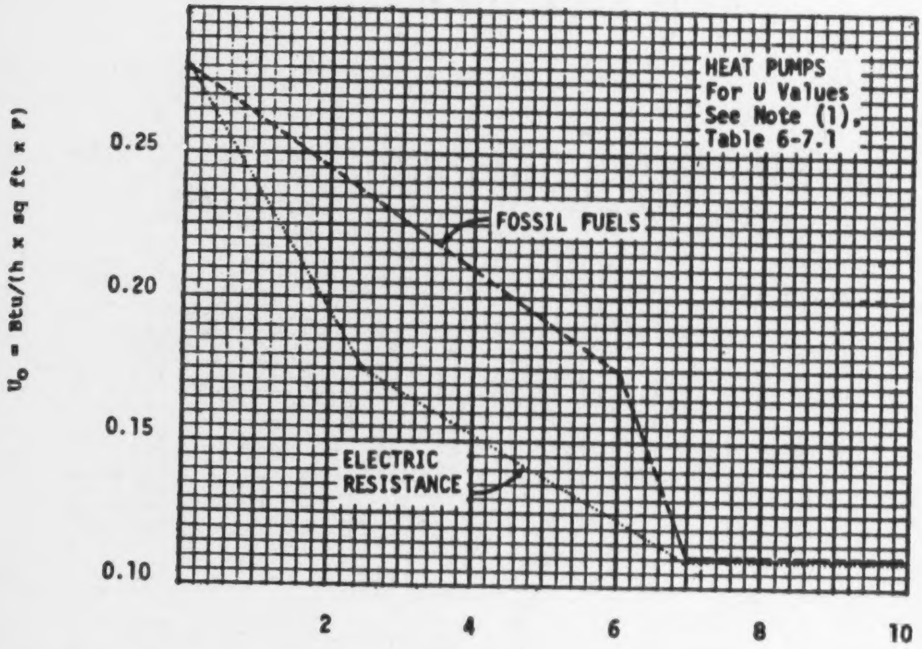
*(2) The following combinations of wall and ceiling transmission values are considered to provide annual heating and cooling consumption comparable to that predicted for values in the Table 6-7.1 and may be substituted accordingly. Other components shall conform to the values shown for the specific heating degree day (HDD):

HDD (65F)	ER		FF	
	CLG	WALL	CLG	WALL
0 - 1000	.04	.14	.04	.14
	.03	.15	.03	.15
	.026	.16	.026	.16
1001 - 1500	†	†	.04	.13
	.03	.13	.03	.14
	.026	.14	.026	.16
1501 - 2500	†	†	.04	.12
	.03	.11	.03	.13
	.026	.12	.026	.14
2501 - 3000	†	†	.03	.12
	.026	.07	.026	.13

(†See Table 6-7.1)

(3) Includes roof/ceiling assemblies, in which the finished ceiling is the underside of the roof deck.

GROSS WALLS - FIGURE 1



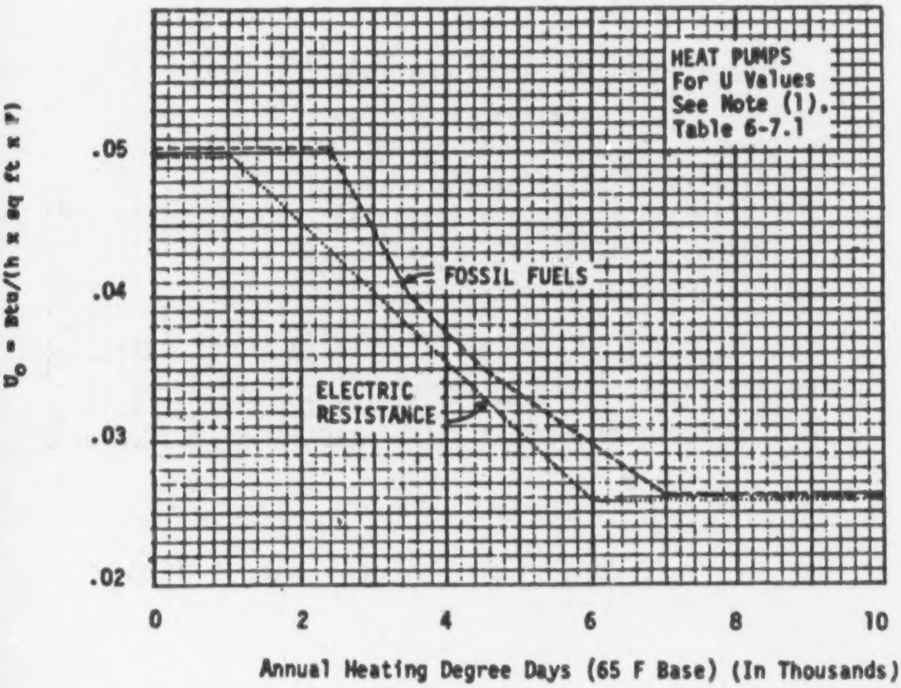
Annual Heating Degree Days (65 F Base) (In Thousands)

*Revised November 1980

607-3.4 Continued

c. U_o (gross ceiling) - Total ceiling area (opaque ceiling and skylights) shall have a combined thermal transmittance value (U_o value) not to exceed the values shown in Figure 2. Equation 2 shall be used to determine acceptable combinations to meet the requirements of Figure 2.

GROSS CEILING - FIGURE 2*



*Revised November 1980

607-3.5 Overall Structure Performance Alternative

Structures which can be shown by accepted engineering practice to have energy consumption equal to or less than that which would be obtained by conformance to the criteria of 607-3.3 or 607-3.4 shall be considered acceptable. The contribution of passive solar energy and the related storage and reradiation capacity of masonry, water and other mass may be recognized in computing energy consumption under this alternate method. The following requirements shall govern in determining comparability:

a. The methodology shall be cost effective to the energy consumer.

b. The methodology shall not adversely affect the structural capacity, durability, or safety aspects of the structure.

c. All data and calculating must show valid performance comparisons between the proposed option and a structure comparable in size, configuration, orientation and occupant usage designed in accordance with 607-3.3 or 607-3.4.

607-3.6 Basement or Crawl Space Foundation Walls

Insulation may be omitted from floors over heated basement areas or heated crawl spaces if foundation walls are insulated. Foundation walls of heated areas below grade need not be insulated except where recreation or similar-use rooms or habitable rooms are provided or where more than 50 percent of the wall is exposed to outside air. The U value of foundation wall sections shall not exceed the value shown in Table 6-7.2 except where the alternative methods shown in 607-3.4 or 607-3.5 are employed and foundation walls are included in the determination of the average thermal transmittance of the gross wall area.

*TABLE 6-7.2

Maximum U Values of the Foundation Wall Sections of Heated Basement or Heated Crawl Space

Heating Degree Days (65 F Base)	Maximum U Value
2500 or less	No Requirement
2501 to 4500	0.17
4501 or more	0.10

6-7-11 *Revised November 1980

Trouble Projects-Flexible Subsidy

In FY 1983, the funding for the Trouble Projects will be provided by using unobligated balances carried over from FY 1982 and transferred from the Rental Housing Assistance Fund. Therefore, you are not requesting an appropriation in FY 1983.

Question: Based on these unobligated balances and transfers, what will be your program level in FY 1983?

Answer: The program level for FY 1983 is estimated at $32 million.

Question: How does this compare to the FY 1981 and FY 1982 levels?

Answer: The corresponding program level for FY 1981 was $114.1 million and the current program level for FY 1982 is estimated at $52.7 million. The substantially higher level in 1981 included $37.4 million in obligations to provide temporary rent increases to Rent Supplement projects. This is no longer an eligible activity under this account and rent increases are being provided using alternative funding mechanisms. When the Rent Supplement needs are deducted, the obligations under the account are reduced to $76.7 million for comprehensive needs in 1981.

Question: How many troubled projects and number of units would you expect to be assisted during FY 1983 and how does this compare to prior years?

Answer: In FY 1983, Flexible Subsidy assistance is estimated to be provided to 98 projects compared with 276 projects in FY 1982 and 405 projects in FY 1981. Estimates of units are not applicable since the assistance is provided to the project and not the units.

FHA Fund

For FY 1983 you are requesting $240 million to reimburse the FHA Fund for actual losses experienced in 1981.

Question: How much of these funds will be used to pay mortgage and loan insurance claims?

Answer: Of the 240 million requested to reimburse the FHA Fund, approximately $162 million will be used for debt reduction and $78 million will be used for expenses, including mortgage and loan insurance claims.

Question: What is your estimate of the outstanding Treasury borrowing at the beginning of FY 1983?

Answer: It is estimated that $4.1 billion of Treasury borrowings will be outstanding at the beginning of FY 1983.

Construction Completions

In your opening statement, you note that for the period 1982-83 nearly 553,000 units are projected to be completed under the Section 8, Public Housing and Section 235 programs.

Question: Could you please explain the basis for the number of units that you project to be completed in this time frame?

Answer: Completion estimates for both the Section 8 Housing Assistance Payments and Public Housing programs are based upon prior year actual and estimated reservations and construction starts data. An integral part of the estimate is the processing assumptions utilized.

Under the Section 8 New Construction and Substantial Rehabilitation programs, construction completions in 1982 and 1983 are based upon estimates of construction starts in 1980, 1981 and 1982. Section 8 Existing Housing (and Moderate Rehabilitation) completions in 1982 and 1983 are based on estimates of reservations occuring in 1981, 1982, and 1983. For Public Housing completions in 1982 and 1983, estimates are based on construction starts in 1980 and 1981. All of the estimates assume average processing time periods for the reservation to start, reservation to completion, or start to completion periods. Estimated completions for Section 235 assumes an average six month interval after reservation. Estimates of processing times for Section 8 and Public Housing follow:

Program	Application Receipt to Reservation	Reservation to Start	Start to Completion	Total
		(In Months)		
Section 8	1-2	8	13	21
Public Housing	1-2	14	18	32

Question: How many of these will be Section 8, how many will be Public Housing and how many will be Section 235?

Answer: The estimated completions for Fiscal Years 1982 and 1983 by program are as follows:

Program	Estimated Completions a/ 1982	1983 (In Units)	Total
Section 8			
New Construction	90,140	71,240	161,380
Substantial Rehabilitation	17,360	13,760	31,120
Existing HUD-Insured/HUD-Owned	126,275	5,000	131,275
Moderate Rehabilitation	25,000	12,776	37,776
Modified Certificates	...	70,615 b/	70,615
Total, Section 8	258,775	173,391	432,166
Public Housing			
New Construction	28,000	33,000	61,000
Rehabilitation	5,000	5,000	10,000
Existing Housing	1,000	1,000	2,000
Indian Housing	5,000	4,000	9,000
Total, Public Housing	39,000	43,000	82,000
Total, Section 8 and Public Housing	297,775	216,391	514,166
Section 235 - Revised	38,800	...	38,800
Section 202 Housing for the Elderly or Handicapped c/	(18,000)	(20,000)	(38,000)
Total	336,575	216,391	552,966

a/ Includes existing housing under Section 8 and Public Housing which are made available for occupancy.

b/ Includes 5,000 modified certificates to be made available for tenants in Public Housing projects that may be sold or demolished during the fiscal year. Also includes 60,615 Modified Certificates which replace Section 8 existing units.

c/ Section 202 reservations are included in the total as a part of Section 8. They are shown in parentheses on this table to avoid double counting.

Question: How many of these units will be the result of conversions?

Answer: For 1982, it is estimated that 66,000 units will result from the conversion of Section 23 Leased Housing, Rent Supplement and Five Year Opt-Outs. For 1983, it is estimated that 71,615 units will result from the conversion of Section 23 Leased Housing, Rent Supplement, Public Housing (demolitions) and Five Year Opt-Outs.

Housing Payments

In FY 1983, you are requesting $9.538 billion for Housing Payments. This represents an increase of $626 million from the FY 1982 level.

Question: What is the projected rate of increase in the cost of this program over the next 5 years and what will be the actual dollar amount in each of those years?

Answer: The 1983 liquidation requirements of $9,538 million are $779 million higher than the 1982 requirements of $8,759 million. The 1983 outlay estimate of $7,352 million is $626 million higher than the 1982 outlay estimate of $6,726 million. The estimated liquidation requirements and outlay estimates for the Housing Payments account and the annual percentage increases are shown below for fiscal years 1982-1987.

(Dollars in Thousands)

Fiscal Year	Estimated Payment Requirements	Annual Percentage Increase	Estimated Outlays	Annual Percentage Increase
1982......	$8,759,000	NA	$6,726,000	NA
1983......	9,538,000	8.9%	7,352,000	9.3%
1984......	9,849,000	3.3%	7,831,000	6.5%
1985......	10,128,000	2.8%	8,401,000	7.3%
1986......	10,275,000	1.5%	8,867,000	5.5%
1987......	10,433,000	1.5%	9,205,000	3.8%

The above estimates are based on the assumption that the programs and budget levels proposed in the 1983 Budget will be approved. Variations upward from the President's proposals would increase the payment requirements and outlays above these estimates.

Rental Housing for People in Wheelchairs

On June 19, 1981, GAO issued a Report criticizing the planning and utilization of rental housing for persons in wheelchairs.

Question: Could you please comment on the recommendations in that report and what the Secretary is doing to remedy these problems?

Answer: The Department agrees with all of the recommendations in the GAO Report. Further, HUD Field Offices were advised on March 22, 1982 that applications submitted under the Section 202 Housing for the Elderly or Handicapped program were no longer required to automatically include 10 percent of the units for wheelchair handicapped people. Rather, sponsors would be expected to obtain a local community official's determination of the need for wheelchair accessible units which would be reviewed by the Department.

Housing Assistance Council

Question: How much have you included in your FY 83 budget request for the Housing Assistance Council (HAC)?

Answer: Approximately $500 thousand is anticipated to be used in 1983 for the Housing Assistance Council (HAC). However, this amount will depend upon a review of the Department's priorities, and Congressional action on the FY 1983 research appropriation.

Question: How does this compare to the FY 82 level and what activities will not be performed under this decreased level of funding?

Answer: In FY 1982, HUD funded HAC with $1 million. The FY 1983 reductions will apply to a generally lower level of technical assistance rather than to the elimination of any particular activity.

FHA Mortgage Insurance Premiums

The Administration proposes to change the way FHA-insured home buyers pay insurance premiums. Instead of paying a premium equal to 1/24th of each percent of the outstanding mortgage balance every month, each FHA-insured home buyer will make a one-time payment at settlement equal to the discounted present value of the monthly premium payment that they otherwise might have paid. This change obviously will provide the Federal Government with immediate access to substantial funds. Also, savings should occur in the FHA accounting and collection function.

Question: On the basis of this change, what is HUD's estimate of the impact this proposal would have on administrative costs of HUD's accounting and collection function?

Answer: As the Department shifts to an upfront premium collection approach on single-family insured housing, it is anticipated that the Department will benefit from a substantial staff savings in our accounting functions. The full impact of the savings will not be immediate since it will still be necessary to service over five million single-family insurance contracts in force under the old method. However, as these outstanding contracts are terminated over time and new contracts are added under the new method, the staff savings will grow. For example, by the fourth year of operation, it is estimated that seven staff years will be saved; by the tenth year, annual staff savings will increase to approximately 47.

Question: Will this change have any effect on disqualifying or discouraging home buyers from purchasing homes?

Answer: This change should have no effect on disqualifying or discouraging home buyers from purchasing homes since the prepaid premium can be rolled into the mortgage amount and the change in the monthly payment will be minimal.

Question: What will the average premium payment be at closing?

Answer: If the total premiums were paid at loan closing, the average premium would be approximately $1,600. However, by including the premium in the mortgage amount, the monthly debt service portions of the payment are expected to increase by only $21. However, the total monthly payment from the mortgagor would not increase to this extent since the higher monthly debt service would be offset by eliminating the requirement for monthly mortgage insurance premium as paid under the existing program.

Question: In related action, increased fees for FHA/VA borrowers whose mortgages make up the GNMA MBS pool will also occur as a result of the Administration's proposal to charge a new fee. Given this added expense combined with other proposed changes such as the up-front collection of premiums on FHA loans, how many moderate-income home buyers will be disqualified from purchasing homes in the future?

Question: In related action, increased fees for FHA/VA borrowers whose mortgages make up the GNMA MBS pool will also occur as a result of the Administration's proposal to charge a new fee. Given this added expense, combined with other proposed changes such as the up-front collection of premiums on FHA loans, how many moderate-income home buyers will be disqualified from purchasing homes in the future?

Answer: Neither the increased fees for GNMA's mortgage-backed securities' commitments nor FHA's up-front fee collection proposals will prevent moderate-income home-buyers from purchasing homes.

The proposed increase of GNMA fees would have a minimal impact on individual pooled loans which is estimated at less than $8 per loan. Therefore, we expect the proposed increase to have no impact in disqualifying prospective home-buyers from the purchase of a VA-guaranteed or FHA-insured home.

FHA's proposed up-front fee collection will not significantly change monthly expenses for the home-buyer. In fact, the following example of a typical Section 203 loan illustrates that the monthly mortgage payment may actually decrease under the proposed program:

	Existing Program	Proposed Program
Sales Price	$50,000	$50,000
Settlement Costs	2,200	2,200
Subtotal, Acquisition Cost	52,200	52,200
Mortgagor Downpayment	-2,110	-2,110
Base Loan	50,090	50,090
Up-front Premium	NA	1,553
Loan Amount	50,090	51,643
Monthly Debt Service at 15.5 percent	$653.40	$673.69
Monthly MIP	20.87	...
Total Monthly Payment	674.27	673.69
Base Loan/Value Ratio	100.2	100.2

PHA Utility Costs

Preliminary work GAO has performed in regard to HUD's Public Housing Modernization program indicates that it may be as long as five years before modernization efforts have a significant impact on reducing utility costs. In their review, GAO notes that until energy efficiency improvements are made to many projects, Public Housing Authorities and tenants may be unable to significantly reduce energy consumption regardless of their conservation efforts.

Question: How many PHAs have begun improvements that will be completed in time to affect 1983 expenditures?

Answer: Specific information as to the number of Public Housing Agencies (PHAs) that recently have begun improvements which will impact 1983 expenditures is not available. However, data are available which can be used to determine the amount of savings which can be anticipated.

Typically there is a two to three year lag between funding and actual completion of Modernization projects. Given this lag, any estimate of 1983 savings must be based primarily upon the Modernization activity prior to 1980. A recent survey of HUD field offices indicated that the "payback" on Modernization funds expended for energy conservation projects would approximate 14.8 percent of the capital investment devoted to energy related modernization. On this basis, it is estimated that the savings which will accrue in 1983 will approximate $50.0 million.

Question: What are the results and implications of your recent study on the Performance Funding System?

Answer: The report which was submitted to Congress on May 24, 1982 sets forth several alternatives to the Performance Funding System. It does not recommend a specific alternative, but is intended to be an aide in determining the subsidy system to be used in the future.

Question: Of the 666 January Authorities, how many have received their total FY 1982 Operating Subsidy allocation?

Answer: As of May 20, 1982, 211 Public Housing Agencies (PHAs) with fiscal years starting in January and April had received interim payments for FY 1982 at a level of 75 percent of 1981 Performance Funding System eligibility from interim funds which were assigned to the Field Offices on March 5, 1982. Funding on an interim basis has been necessary while the Department modifies current procedures for determining Operating Subsidy payments to take into account reductions in subsidy need resulting from energy conservation as well as Administration initiatives directed toward cost limitations and increased State and local support of Public Housing.

Question: Of the 654 April Authorities, how many have received their total allocation?

Answer: The PHAs with fiscal years starting in April that have received their interim allocation are included in the answer to the previous question. Data are not available to distinguish between PHAs with fiscal years beginning in January and April.

Question: Why is it taking HUD so long to get these funds out to the PHAs?

Answer: There was a delay in making payments to PHAs based on the March 5 fund assignment due to a recent General Accounting Office ruling that required HUD to revise the format for letters-of-intent. This problem has been resolved and it is expected that all PHAs with fiscal years starting in these Quarters will receive their payments shortly.

Question: On April 14, the Council of Large Public Housing Authorities notified the Department that it had decided to pursue legal action in the Courts for the release of the FY 1982 Operating Subsidy funds. What are the major contentions made by the Council and what action, if any, has HUD made in response to the filing of this suit?

Answer: The suit was brought to enjoin HUD from withholding a portion of the FY 1981 and FY 1982 appropriations for PHA Operating Subsidies and to prevent HUD from implementing changes in the manner in which Operating Subsidies are calculated and distributed to PHAs without first providing public notice and an opportunity to comment on the proposed changes. The Department is reviewing the complaint and preparing a legal defense in response to the allegations in the complaint.

Temporary Mortgage Assistance Program

Your Budget assumes that the assigned mortgage inventory is expected to decrease by a net total of 7,499 units by the end of Fiscal Year 1983 compared with the Fiscal Year 1981 end-of-year inventory. This reduction is based on an increased foreclosure rate which will affect the assigned mortgage inventory, the impact of the Department's troubled projects strategy, and the impact of the Temporary Mortgage Assistance Program (TMAP). Last year during our Conference on H.R. 4034, you indicated that the Department was reviewing the final regulations for the implementation of the program.

Question: What is the current status for implementation of this program?

Answer: Proposed regulations were published in the Federal Register on April 5, 1982 with public comments due by May 20, 1982. Final rules have been cleared within the Department and forwarded for Office of Management and Budget (OMB) approval. Publication is expected by mid-August. Implementation still is planned before the end of this fiscal year.

Question: When will the necessary administrative training and operational requirements be developed?

Answer: Procedural instructions for program participants have been prepared and are ready for clearance. With the expedited clearance process, it is anticipated that final instructions will be ready by the time the program is implemented. Preliminary training for the Field Offices and counseling agencies was conducted by the Headquarters staff in various Regional Offices during the latter part of June 1982. The Department also coordinated one-day training sessions for the mortgagees with the Mortgage Bankers Association which were held in ten cities throughout the country during July 1982. These sessions briefly covered the TMAP program and the new procedures for paying mortgage insurance premiums.

Question: What effect will such a late start date have on the current budget request for program implementation?

Answer: Because of the delayed implementation date for TMAP, it currently is estimated that obligations for the program will be reduced to $7.5 million in FY 1982. These revised estimates are based on the most recent requests for mortgage assignments and represent a decrease in the number of TMAP loans approved in FY 1982 from the Budget estimate of 2,000 loans to the current estimate of 750 loans.

Question: What specific savings do you see to the Fund as a result of the implementation of TMAP in FY 1983 and how many units would be assisted?

Answer: The Budget assumes that 4,500 units will be assisted by TMAP in FY 1983. Based on an average assignment claim of $26,900, a potential savings of $121 million to the FHA Fund is expected in FY 1983.

Question: Have you discussed the implementation of a TMAP-type program with the Veterans Administration?

Answer: The Veterans Administration (VA) is aware of the TMAP program, but there has been no formal request from the VA to discuss the implementation of a TMAP-type program for VA mortgages.

Question: Why do you believe that the Veterans Administration continues to use its version of the assignment program rather than switching to a TMAP-type approach?

Answer: There has been no discussion of the issue with the Veterans Administration. Consequently, HUD cannot say why VA prefers to continue with its own mortgage assignment program.

Tenant Rent Contribution

You are recommending a series of changes that would increase the rent contribution of tenants living in subsidized housing by including the value of Food Stamps in the determination of tenants' income, placing a cap on monthly utility allowances, and increasing the limitation on annual rent increases from 10 percent to 20 percent.

Question: Based on the changes enacted in the Omnibus Budget Reconciliation Act of 1981, changing the maximum allowable rent contribution from 25-30 percent, what has been the net increase in rent collections? How does this compare to HUD's estimates as to the impact of that legislation contained in the FY 1982 and FY 1983 Budget for Public Housing?

Answer: Regulations which will change the maximum allowable rent contributions from 25 percent to 30 percent have not been published for effect. As a result, there has been no increase in rent collections. If these regulations had been in effect as estimated in the 1983 Budget, the impact projected for all subsidized housing would have been as follows:

Program	FY 1982	FY 1983
	(Dollars in Millions)	
Section 8	$47	$188
Public Housing	33	77
Rent Supplement	...	1
Total	80	266

Question: What budget savings do you expect in FY 1983 as a result of each of these proposals?

Answer: The FY 1983 Budget reflected the following savings as a result of proposals related to tenant rents:

Program/Purpose	FY 1983 (Dollars in Millions)
Section 8:	
Increase rent/income ratio to 27 percent for existing tenants	$126
Increase rent/income ratio to 30 percent for new tenants	62
Include Food Stamps as income	108
Provide for minimum rents equal to utility costs	133
Subtotal	429
Public Housing:	
Increase rent/income ratio to 27 percent for existing tenants	50
Increase rent/income ratio to 30 percent for new tenants	27
Include Food Stamps as income	100
Provide for minimum rents equal to utility costs	7
Subtotal	184
Rent Supplement:	
Increase rent/income ratio to 27 percent for existing tenants	1
Include Food Stamps as income	5
Subtotal	6
Section 236:	
Include Food Stamps as income	2
Total	621

Question: In the event that the legislative action needed to implement some of these proposals is not approved, how would the Department propose making up the shortfall?

Answer: If the Administration's proposals to increase tenant rent payments are not approved, a significant shortfall would result. This would require the Department to reevaluate the budget request by exploring other ways of generating additional income or savings.

Question: What would be the range of rent changes for individuals associated with counting the value of Food Stamps in determining tenant income?

Answer: The Housing and Community Development Amendments of 1981 (Title III of the Omnibus Budget Reconciliation Act of 1981) limits the amount of increase a family may pay to no greater than 10 percent in any twelve month period. This cap encompasses not only changes in the 1981 HUD amendments, such as increasing the family's rent from 25 percent to 30 percent over time, but also any other provisions of Federal law redefining which governmental benefits, e.g., food stamps, are required to be or may be considered as income. Increases in excess of 10 percent during a twelve month period are allowable only to the extent a family's income increases as a result of other than redefinitions or amendments to the law.

Question: The Committee has been informed that in some cases the rent increases would exceed 50% for certain individuals -- is this your understanding?

Answer: The 10 percent cap limitation precludes any cases of doubling one's rent burden. Further, the 1981 Act provides equity among assisted housing recipients, i.e., deductions from gross income will be the same regardless of which assisted housing program one enters. The net result will benefit neither the government nor will it create a greater burden on tenants as a group. Also, HUD is converting Rent Supplement units to Section 8 which provides a subsidy which protects the tenants as to rent burden. While a few tenants may experience a disproportionate rent increase in the long run, no family will pay more than 30 percent of adjusted gross income once the provisions of the 1981 Act are fully implemented.

Food Stamps, however, are a form of income and should be treated as such for equity reasons. Households that receive Food Stamps have a much higher effective income than other households receiving the same cash income, but that do not receive Food Stamps.

Question: What would the Department's policy be in cases where increases of this size might result?

Answer: The Department plans to avoid excessive rent increases by using two approaches. The first would be to gradually phase in rent increases over a period of years. The second would be to study the need to limit the amount of rent increases attributable to Food Stamp income and take action as needed. This latter type of measure only would be necessary in States with very low welfare benefits where Food Stamps are a disproportionately large part of income for some households. There are several approaches that could be used in such situations (e.g., counting a percentage of Food Stamps as income, limiting rent attributable to Food Stamps, etc.) that will be considered in consultation with the Department of Agriculture and the Department of Health and Human Services.

Question: One of the key factors in determining the success of these initiatives will be the adequacy and accuracy of tenant income reporting and verification. What is the Department doing, and what does it intend to do, to assure that project owners and PHAs protect the Government's interest by properly monitoring tenant eligibility and verifying their incomes?

Answer: The HUD Administrative Handbook for the Section 8 Housing program stresses income verification with particular emphasis on third-party verification and provides detailed guidance on sources and types of verification. HUD field staff have been instructed to pay particular attention to this issue during their management reviews. In addition, the Department has a contract underway to improve the effectiveness of Field Office monitoring and quality control which includes the area of tenant eligibility and income verification. It also is planned to develop a training package for PHAs operating the program which will include this area of concern.

Training recently was conducted for Field Office staff involved in monitoring the Public Housing program. This training stressed the need to adequately monitor PHA activities. In October 1981, the Department issued instructions reminding Field Offices of the sanctions available to them when PHAs do not comply with HUD Public Housing requirements.

Question: Do you believe that incentives are currently adequate to assure that owners and PHAs are conscientious about verifying tenants' incomes?

Answer: Although incentives for the Section 8 program are adequate, they could be improved. In addition to the improvements described above, the Department anticipates developing a system of sanctions to apply against PHAs that mismanage the program. The Public Housing program has a short term incentive for timely and accurate verification since PHAs may keep increased rental income derived from reexaminations during the year in which the reexaminations occur. In the long run, such increased rental income reduces a PHA's Operating Subsidy payments. The Department is analyzing the Operating Subsidy system, however, to try to find ways to provide greater incentives for verification.

Rural Housing

With the submission of the FY 1983 Budget, the Administration contends that recent trends indicate that rural areas are adequately served by private credit markets.

Question: What evidence does the Administration have that demonstrates that currently mortgage markets in rural areas are adequate?

Answer: The continued development of secondary mortgage markets has improved access to mortgage credit at competitive rates to virtually all housing markets. For population areas of 10,000 or more, FHA and VA mortgages provide easy access to secondary markets. A recent HUD survey found that only seven areas of population 10,000 or more were more than 50 miles from an FHA or VA approved mortgagee. In addition, a recent New York Times article, published June 20, 1982, indicates that private bankers in the more rural areas (less than 10,000 population) also are acting to improve their access to secondary markets. According to the article, bankers in areas where homes do not meet FHA minimum property standards have set up consortiums of correspondents to make conventional mortgage loans for resale to the Federal Home Loan Mortgage Corporation. The most recently formed consortium includes nearly all 101 independent banks in 46 rural counties in the central Appalachian highlands which is one of the more economically devastated rural areas in the nation.

Question: What impact do you expect your Modified Certificate program to have in rural areas?

Answer: The impact of the Modified Certificate program on rural areas generally is expected to be similar to that of the Section 8 Existing Certificate program. In 1980, almost 21% of the total Section 8 Existing Certificates were reserved in non-metropolitan areas. This increased to almost 24% in 1981. Because 60,615 Modified Certificates are proposed to replace Section 8 Existing Certificates, the same ratios can be assumed in 1983. In addition, a portion of the Modified Certificates to be used in conjunction with the Rental Rehabilitation program will be directed toward rural areas based on the level of rehabilitation activity in those areas. Previous reservations under the Section 8 Moderate Rehabilitation program, which the Rental Rehabilitation program is proposed to replace, indicate that 22% of the total reservations in 1980 occurred in non-metropolitan areas and 17% in 1981. Since this proportion is expected to continue, it is not anticipated that rural areas will be lacking housing assistance due to the implementation of the Modified Certificate program. Additional assistance to rural areas in FY 1983 to be provided by Modified Certificates will be based on the number of Public Housing demolitions, Section 8 New Construction and Substantial Rehabilitation contract cancellations, and sales of HUD-owned properties in those areas.

Question: Is it assumed that the Certificate Program will replace reductions in the FmHA programs?

Answer: As previously stated, rural areas will be served through the Modified Certificates. However, this program is not intended to replace the Farmers Home Administration (FmHA) programs. The FmHA Section 515 program previously was administered in conjunction with the Section 8 New Construction and Substantial Rehabilitation program which is proposed for elimination after the viable reservations for projects currently proceeding through the pipeline have been satisfied.

Question: Since a major portion of FmHA reductions is in the Single Family Homeownership program, how will the Certificate program apply?

Answer: Modified Certificates will be provided to eligible tenants who rent a unit subject to the unit meeting certain minimum property standards. No provision has been made for the program to include homeownership benefits because the subsidies would be prohibitive.

Indian Housing

The Department has once again recommended eliminating the Indian Housing program in FY 1983.

Question: Could you please describe the status of the pipeline, including the funding of sewer and water through the Indian Health Service?

Answer: As of January 31, 1982, there were 410 projects with 14,032 units in the Indian Housing development pipeline. Of these, 283 projects with 9,404 units were in pre-construction stages of the pipeline and 127 projects with 4,623 units were under construction.

The Department estimates that between 4,700 and 5,300 units in the current Indian Housing development pipeline that do not have full Indian Health Service (IHS) funding will need full sewer and water facilities funding during FY 1982 or during the first half of FY 1983. It is estimated that the sewer and water facilities for these units will cost between $29 million and $32.5 million.

Question: How does HUD propose to deal with the shortage of Indian Housing?

Answer: The Office of Management and Budget (OMB) established a Task Force on Indian Housing to review Indian Housing and related programs with a mandate to improve housing delivery mechanisms and to draw private capital to Indian reservations. The Assistant Secretary for Indian Affairs in the Department of Interior is the Chairman of the Task Force and the General Deputy Assistant Secretary for Housing is HUD's representative on the Task Force.

The Task Force and its staff are exploring ways of providing alternate cost effective ways of delivering Indian Housing which will provide greater flexibility for Tribal leadership to operate the program without excessive Federal "red tape."

Until a decision has been made by the OMB Task Force on what direction will be recommended to provide housing in Indian areas, the Department will continue to strive for the efficient and timely development of units in the Indian Housing pipeline. In addition, the Department will continue its efforts to improve the Indian Housing Authorities' operation of the units that are under management.

Loan Limitations and Guarantees

Section 136 of P.L. 97-92 requires that the head of each Department and Agency shall provide guarantees or insurance in the full amount provided for in the FY 1982 HUD Appropriations Bill. I understand that there was some reluctance at OMB to provide you with the appropriate apportionment for FHA and GNMA necessary to comply with this provision.

Question: What is the current status of your allocation?

Answer: OMB has apportioned the full $40 billion for mortgage insurance commitments and the full $68,250,000,000 limitation on loan guarantee commitments under the GNMA Guarantees of Mortgage-Backed Securities program. In addition, the full limitation of $225 million under the Section 108 Loan Guarantee program has been apportioned.

Transfer to Federal Financing Bank

In your February 5 rescission, you requested the authority to transfer $1.4 billion to the Federal Financing Bank to convert short-term tax exempt Public Housing bonds to long-term taxable bonds. This transfer was estimated to support $1.026 billion in Public Housing instrument sales. In FY 1983, you are requesting the authority to transfer another $1.4 billion to support additional sales of $1.485 billion of instruments in FY 1984.

Question: Where do you now stand relative to the $20 billion ceiling on obligations?

Answer: On April 30, 1982, there were outstanding loan approvals of $18.4 billion.

Question: If the $1.4 billion transfer in FY 1982 was rejected, would you reach the ceiling during the remainder of this year?

Answer: No, since the 1982 transfer would have been used for sales to the FFB in FY 1983, there would be no impact on the ceiling in FY 1982 if approval of the proposed transfer is rejected.

Question: What would be the impact if both the FY 1982 and FY 1983 transfer were denied?

Answer: There would be no impact in FY 1982 if the proposed transfer is denied since the FY 1982 and FY 1983 transfers would support sales in FY 1983 and FY 1984 respectively. In FY 1983, assuming the FY 1982 transfer is denied and that Public Housing development and modernization activities are executed at the levels proposed in the Budget, the outstanding loan approvals by the end of FY 1983 will be approximately $17.2 billion, or $1.026 billion higher than estimated since we would not be able to make the $1.026 billion of sales in 1983. The instruments that would have been sold to the FFB would continue to be financed in the short-term tax-exempt market. Should the Congress require more Public Housing than proposed in 1983 Budget, it is possible that the $20 billion ceiling would be reached during FY 1983.

GNMA Mortgage-Backed Securities Program

In FY 82 we increased the limit on the GNMA MBS Program to $68.25 billion. For FY 83, the Administration is proposing to reduce the level of commitments in this program to $38.4 billion. You are also proposing to increase the existing commitment application fees and to charge a new fee to all first-time issuers of GNMA securities.

Question: If the current fee is already more than adequate to cover the operating expenses of the program and to build up a substantial reserve fund (currently totaling over $300 million), why are new and increased fees being proposed?

Answer: The increase in commitment fees is being proposed in order to conserve the amount of commitment authority available for issuers. In prior years with a flat $500 fee regardless of the commitment amount, issuers would request commitments substantially in excess of their planned loan production. The new fee schedule will result in commitment levels being much closer to actual guarantees issued. While the program has accumulated in excess of $300 million in fee income, this accumulation is estimated to be required for contingency losses over the entire period during which pools are outstanding. The program is only 12 years old with an outstanding securities' balance in excess of $108 billion, most of which was created over the last five or six years.

Question: How will reductions in MBS commitment ceilings reduce Federal borrowing requirements?

Answer: Credit raised under government auspices has had an adverse effect on housing because the demands for housing credit are particularly sensitive to interest rate levels. Consequently, an expanded government presence can inhibit the development of the capital market environment necessary to a healthy housing industry. Reducing the MBS commitment ceiling is one factor in lessening the overall pressures on the nation's capital markets which are currently causing high interest rates.

Question: Is it true that establishing commitment ceilings nearer the level of securities actually issued would result in no savings to the Government but would require a much more complicated allocation system?

Answer: No, the revised fee structure will help reduce the request for commitments to a level commensurate with issuers' ability to originate and pool loans. The amounts requested are believed to be adequate to preclude the necessity for an allocation system. Since the revised fee is now tied to the commitment level, the issuer now has an incentive to police himself which will result in a self-allocation system.

Question: The Administration appears to be attempting to encourage the development of the private sector Mortgage-Backed Securities Program by increasing the price of GNMA MBS fees and thus making the GNMA program less competitive.

Could this be viewed as, in fact, a subsidy to the private sector in order to make them more competitive?

Answer: No, the fee is being raised so as to reduce the competitive advantage of the GNMA program vis-a-vis private programs.

Evaluation of CDBG

Question: With the elimination of detailed applications, how has HUD redirected its CDBG oversight strategy from one that previously concentrated on pre-award application reviews to a post-award performance review?

Answer: HUD is in the process of revising its oversight responsibilities for post-award actions such as monitoring, the Grantee Performance Report, and performance review and standards to conform with the changes the Housing and Community Development Amendments of 1981 made to Section 104(d) of the Housing and Community Development Act of 1974. In making these revisions, we are sympathetic to the concerns of many localities that the elimination of the pre-award application review may be replaced by a complicated post-award review. We are sensitive to the need to establish an appropriate level of restraint in conducting such post-award responsibilities, while at the same time not diminishing local government's responsibility for carrying out the CDBG program in accordance with the Act and in a timely manner. The Department expects to make revisions in its policies governing its post-award responsibilities by the October 1, 1982 effective date of the amendment to Section 104(d) of the Act.

CDBG Program and New Construction

Question: Is the Department planning to add new construction as an eligible activity under the CDBG program?

Answer: The Department does not have the authority to add housing new construction as an eligible activity without a statutory change. The President's Housing Commission has recommended that this be done. HUD is currently studying the matter in order to determine whether it should adopt this recommendation and propose the necessary statutory changes.

Question: How could Congress assure that local governments "target" new construction activities to those most in need?

Answer: Should the Congress elect to add eligibility of new construction to CDBG and to "target" such activities to a particular segment of the population, it could do so simply by conditioning the eligibility of this activity accordingly. In the absence of any such conditions, the housing construction activity, as any other activity, would be required to benefit lower income persons or to aid in the prevention or elimination of slums and blight.

CDBG Drawdown Rates

In the FY 82 Senate Report we asked you to review HUD's policy concerning the use of CDBG spending rate as a criteria for allocating funds to communities. On February 1, you responded to that request and informed me that your staff has prepared a proposal to delete the CDBG drawdown goals from your evaluation criteria. You stated in your letter that "local governments are in the best position to improve the delivery of local programs and can best maximize the effectiveness of dollars spent".

Question: Is this new policy now completely implemented?

Answer: In keeping with my February 1 response, CDBG drawdown goals have been deleted from the Departmental Priority Objectives and the Department's 1982 Executive Management Report.

The Department's communication of new program directions to both its Field Offices and local communities has emphasized the roles both played in achieving the goals of greater local self-reliance, responsibility and administrative capacity.

This new policy of maximizing local government's flexibility and responsibility is part of the ongoing process of the Department's re-evaluation and, as appropriate, revision of current program policies.

Urban Development Action Grants

In the Department's report on the effectiveness of the UDAG program, the Department and the Administration determined to continue the program at a level of $500 million for FY 83. One of the issues raised in that report was assuring that UDAG funds are used only to support projects that would not have gone forward without such assistance.

Question: What is the Department doing to assure that UDAG funds are only used in such cases?

Answer: To ensure that UDAG subsidies are awarded only when absolutely necessary, the following steps are being taken:

1) The Department's Headquarters UDAG staff are receiving further training to improve their underwriting capacity;

2) Increased training will also be given to HUD's Area Office staff to help in the review of proposals for UDAG funding;

3) HUD officials are building "networks" of bankers, investment underwriters, and other experts familiar with local market conditions in order to call upon them for consultation;

4) The required "but for" letter will be more carefully structured, requiring the developer to detail what private investment is really being caused by the UDAG subsidy, to confirm that the UDAG assistance is the least amount required, and to acknowledge that the signator is aware of Federal penalties for fraudulent statements in the letter;

5) Market studies, feasibility analyses, and pro formas used by lenders will be obtained by HUD staff and reviewed carefully; and

6) In cases where the private lender's risk is minimal or he/she has an interest in the proposed development, HUD staff will do a full underwriting analysis comparable to the analysis of an unbiased lender and/or hire an independent third party to underwrite the project.

Rehabilitation Loans

Question: In July the Department issued its Second Annual Section 312 Rehabilitation Loan Program Report. This report criticizes the 312 Program on a variety of grounds. Could you please provide for the record a summary of the recommendations and conclusions of that report?

Answer: The preface of the Second Annual Report on the Section 312 Rehabilitation Loan program criticized the program for a number of reasons, including--1) the same type of rehabilitation can be and is being accomplished through the Community Development Block Grant (CDBG) program; 2) Section 312 is excessively staff intensive; 3) Section 312 is no longer needed as a model for developing local rehabilitation programs; and 4) the program costs to the federal government are unwarranted in light of alternatives currently operating or proposed.

While the Second Annual Report did not make specific recommendations or conclusions concerning the Section 312 program, the Administration, in keeping with its efforts to reduce federal spending and eliminate cumbersome, expensive, staff intensive programs, has recommended the termination of the Section 312 program. The program is operating this year without an additional appropriation pursuant to Congressional direction to make new loans from loan repayments.

Question: Last year the Congress established Section 312 as a revolving fund with an estimated $68 million activity level. If the program was continued in Fiscal Year 1983 on this basis, it is estimated that an additional $63 million will be available. Do you agree with this estimate?

Answer: At this time we have no basis to change that estimate.

Question: Under this program level, how many units could be rehabilitated?

Answer: We estimate that approximately 4,750 dwelling units could be rehabilitated with $63 million. That level assumes an average cost of $15,000 per dwelling unit, and a unit mix of 20 percent single family/80 percent multifamily.

Secretary's Discretionary Fund

In FY 83 you are requesting $56.5 million for the Secretary's Discretionary Fund, this is the same funding level as in FY 82.

Question: Please describe the activities that will be conducted under this program in FY 83 and the funding for each of these activities.

Answer: The estimated distribution of the Secretary's Discretionary Fund for Fiscal Years 1982 and 1983 are as follows:

Program	FY 1982	FY 1983
New Communities	$ 3,441,000	...
Insular Areas	5,250,000	$5,950,000
Indians & Alaskan Natives	30,000,000	30,700,000
Technical Assistance ..	17,809,000	19,850,000
TOTAL	56,500,000	56,500,000

Use of funds in 1983:

New Communities grant assistance in 1982 represents the estimated funds required in negotiating the Department's withdrawal from the remaining Title VII projects which have been determined not to be viable. No funding is required in 1983.

The Secretary's Discretionary Fund is the source of funding for community development activities in the Insular Areas. Typical types of projects include: construction or reconstruction of public works and facilities; housing rehabilitation; economic development; and public services.

The Discretionary Fund is also the source of funding for community development activities undertaken by Indian Tribes and Alaska Native Villages. Typical types of projects include: housing rehabilitation; economic development; and construction of public facilities.

Projects funded under the Technical Assistance Program are to assist States and communities in planning, developing and administering Title I assistance, e.g., local Community Development Block Grant and Urban Development Action Grant programs. The Technical Assistance program is used to provide:

-- grants to States for building their capacities to devise strategies and procedures to undertake State administration of the State CDBG program for nonentitlement cities (but not for State costs of actual administration of the program);

-- assistance to cities in building capacity to plan and implement local community development activities that leverage private investment, such as the work being done by SRI, International;

-- economic development assistance in program development, loan packaging, such as the work being done by the National Development Council and the National Council for Urban Economic Development for numerous communities;

-- assistance to Title I program participants in helping special groups in understanding and improving their capacities to participate with cities in the local community development process (including through the Community Development Work Study program to which the Department is committing $2 million in FY 1983), such as the work being carried out by the National Conference of Black Mayors, the Mexican-American Research Center and others; and

-- assistance to small cities in building basic capacity for program administration, e.g., in financial management, environmental reviews, citizen participation, labor standards, nondiscrimination compliance, and relocation.

Community Development Block Grant Program

This year your request for the Community Development Block Grant program is $3.456 billion or the same as was appropriated in FY 82.

Question: What will the CDBG program level be in FY 82 and what do you anticipate it to be in FY 83?

Answer: The CDBG program level is estimated to be $3,709.7 million in fiscal year 1982 and $3,466.0 million in fiscal year 1983. The 1982 program level includes the obligation of an unobligated balance of $243.7 million from 1981. The Budget does not assume any unobligated balance at the end of 1982.

CDBG and UDAG Unobligated Balances

Question: Please prepare for the record a table of the unobligated balances in the CDBG and UDAG programs by fiscal year.

Answer: The following table shows the unobligated balances in the CDBG and UDAG programs at the end of each fiscal year:

FISCAL YEAR	UNOBLIGATED BALANCES	
	CDBG	UDAG
	(Dollars in Thousands)	
1975	$577,181	...
1976	971,498	...
Transition Quarter	318,472	...
1977	294,644	...
1978	790,190	$280,597
1979	217,521	65,548
1980	110,966	94,116
1981	243,661	155,615
1982 Estimate	...	...

Cities' Loans from UDAG Funds

Question: Generally if the UDAG funds are lent to a developer by a city, HUD requires that the loan be paid back under specific terms and conditions which protect the interest of the taxpayer against windfall profits. Last year you indicated that about half of UDAG project funds to date involve some sort of a loan by a city. What specific conditions has HUD established relative to these loans?

Answer: In order to ensure that the city receives a fair rate of return on any project which involves a UDAG loan, the amount of interest is negotiated before the approval of the Grant and is based on accepted, customary industry standards. The UDAG agreement usually calls for the city to receive a guaranteed rate of interest. The agreement may also provide for an increasing interest rate which is a function of the increased sales and or earnings of the project.

Additionally, the developer is usually limited to a specific allowable return on its cash investment in the project and is required to share with the city any net proceeds which are realized as a result of sale, refinancing, or syndication of the asset which takes place after approval of the Grant. This provision assures that the developer will be required to share with the city in any excess profit which may result from the project.

Question: What is the effective interest rate on the outstanding UDAG loans?

Answer: HUD evaluates each application on its own merits relative to the amount of the loan and terms requested. This usually results in different terms and conditions for each loan--there being no standard interest rate or term.

Urban Homesteading Program

Your FY 83 budget proposed an appropriation of $12 million for the Urban Homesteading Program. Within this amount, $9 million would be used to support an estimated 818 single family properties to be transferred at an estimated average value of $11,000.

Question: What is the current number of cities participating in the program and how many do you expect will be participating in FY 83 if the authorizing legislation is enacted?

Answer: HUD has approved 103 localities to participate in the single family Urban Homesteading program. While the proposed legislation does not affect the single family Urban Homesteading program, it is anticipated that approximately 10 new localities will apply to participate in the existing program in fiscal year 1983.

If the legislation authorizing a Multifamily Homesteading Demonstration is enacted, it is estimated that the proposed funding ($3 million) would permit up to 15 localities to participate. It is expected that a number of the 15 Multifamily Homesteading Demonstration localities will probably have participated in HUD's single family Urban Homesteading program.

Question: Has the total number of abandoned houses increased or decreased over the past several years?

Answer: The Department does not maintain records as to the number of properties it acquires as a result of abandonment. However, the inventory of HUD-owned single family properties has declined from 75,000 properties in 1974 to 19,000 as of September 30, 1981. Although the inventory has declined in absolute numbers, a substantial number of properties are still acquired by HUD each year. During fiscal year 1981, for example, nearly 13,000 properties were acquired nationally and, therefore, were potentially available for homesteading.

The Veterans Administration, which provides another source of properties for HUD-approved Urban Homesteading programs, reports a 51 percent increase in their property inventory over April 1981 and the trend continues upward.

Question: Do you anticipate that the proposed multifamily homestead demonstration program will last more than one year and if so, what are the long range plans for such a program?

Answer: We do not plan to extend the demonstration past the initial first year. Through technical assistance, the innovative approaches to multifamily rehabilitation and homesteading that evolve from the demonstration will be shared and the important lessons of the demonstration will be communicated to other interested cities.

You note in your opening statement that up to $3 million of the $12 million requested for the Urban Homesteading Program in FY 83 will be used to permit the transfer of properties with 5 or more units. You also note that the range of eligible participants will be widened under this demonstration, permitting the transfer not only to individuals and families, but also to partnerships, corporations and other generally accepted forms of ownership.

Question: Why has HUD proposed to expand the eligibility of participants in this program?

Answer: Partnerships and corporations account for most of the ownership of multifamily buildings and can bring their extensive experience in rehabilitation to further reduce HUD's inventory and to revitalize declining neighborhoods. In such a demonstration, we want to test the effectiveness of using various forms of multifamily ownership.

Question: What requirements will be placed upon the participant in terms of permissable rental after the transfer of the properties?

Answer: The effectiveness of a wide range of models will be tested in this small demonstration. HUD will not artificially limit the range of options by Federal rental requirements. Competing proposals will be selected on a case-by-case basis, allowing HUD and the localities to explore a wide range of possibilities.

Question: Will there be any control on the rate of return permitted on the properties?

Answer: Since this is a small demonstration, HUD is seeking to learn about a variety of models under a wide range of conditions. HUD does not propose to limit innovative local approaches by Federal regulation on allowable rate of return.

Last year Senator Specter questioned you about squatting by non-paying residents in HUD-owned properties.

Question: Has HUD developed a national or regional directive since that time dealing with the squatting problem?

Answer: Because large scale and organized squatter activity has, until recently, been limited to the City of Philadelphia, HUD did not issue a national directive. However, with widespread, organized squatter activity being proposed by the Association of Community Organization for Reform Now (ACORN), HUD has recently issued an advisory memorandum which HUD feels provides adequate guidelines for Regional and Area Offices to follow in responding to squatter activities. This directive in part says that:

".... the Department's position is that squatting is an illegal activity, because it involves trespasssing. As a consequence, it is Departmental policy to refer all squatting actions involving HUD properties to HUD's legal counsel for appropriate legal action. Besides being illegal, squatting actions have constituted a serious deterrent to Departmental efforts through HUD property disposition and urban homesteading programs to repair and sell vacant properties. In addition, squatters themselves risk their personal safety by occupying vacant buildings which are in disrepair."

Question: How significant is this problem nation-wide?

Answer: Outside of Philadelphia, large scale and organized squatter activity has not been widespread, but has occurred on an individual and random basis in some cities. Recently, however, the Association of Community Organization for Reform Now (ACORN) received wide media coverage of their plans for organized squatter activity to be concentrated in 10 cities across the country. Thus far, the majority of this increased squatter activity is targeted to locally held abandoned properties.

Rental Rehabilitation Grants

Question: What are the funding levels the Department anticipates for various types of (or) classess of communities under the new Rehabilitation Grant Program and how many units will this enable them to rehabilitate?

Answer: The Administration proposes a program level of $150 million for the Rental Rehabilitation program for fiscal year 1983. The Department anticipates that 60 percent of these funds would be allocated by formula to cities having a population of 50,000 or more. At this time, HUD is estimating that approximately 10 percent of the funds would be allocated by formula to Urban Counties. Approximately 30 percent of the program's funds would be available to those portions of States not receiving a direct formula allocation. Further, the Department is currently planning to make a minimum allocation of $100,000 to cities and Urban Counties. This estimated percentage distribution of funds will be affected by the minimum dollar allocation of funds described above and the actual 1980 Census data.

Assuming an average of $5,000 rental rehabilitation cost per unit (no more than half the cost of rehabilitation can be paid for with Rental Rehabilitation funds), HUD estimates that a total of 30,000 dwelling units could be rehabilitated through this program.

Based on the estimated distribution of 60-10-30 percent, approximately 18,000 units could be rehabilitated in cities receiving a formula allocation, 3,000 units could be rehabilitated in Urban Counties receiving a formula distributution, and 9,000 units could be rehabilitated in localities that do not receive a formula allocation directly from HUD.

Question: What will be the distribution of the $150 million requested between cities over 50,000 in population and those under 50,000?

Answer: At this time, the Department estimates that approximately 70 percent of the new program's funds would be distributed to localities of 50,000 or more population. The remaining 30 percent would be available to States who would, in turn, distribute the funds to units of local government. Because the States are to be given substantial flexibility in their operation of the Rental Rehabilitation program, it would not be possible at this time to estimate the exact percentage of funds that cities of either under or over 50,000 in population would receive. However, it is possible to estimate that those larger entities would receive at least $90 million, based on the 60-10-30 percentage allocation previously discussed, with smaller communities receiving the balance of funds.

Question: How many of the estimated 30,000 units projected to be rehabilitated does the Department anticipate will benefit low-income families?

Answer: Under the Administration's proposal, an estimated 30,000 low-income families will receive rental assistance through the proposed special allocations of Modified Section 8 Certificates —an integral part of this new program. A high percentage of these Certificate holders will reside in properties that are upgraded with Rental Rehabilitation funds. However, since some individual properties are expected to have a mixed income tenancy after rehabilitation, it is not possible to predict the exact number of Certificate holders that will reside in the upgraded buildings.

Question: What definition are you using for low-income families?

Answer: The definition of low-income families that is applicable to the Rental Rehabilitation Grant program is the same as the eligibility standard for the proposed Modified Section 8 Certificate program. The definition of a low-income family would be those who have an income which is 50 percent of the area's median income.

Question: What assurances are there that projects assisted under the Rental Rehabilitation Grant program will remain available to low-income families for any reasonable period of time?

Answer: The proposed program has a number of features which are expected to result in continued low- and moderate-income occupancy of the rehabilitated projects. First, the program will have a performance requirement that localities choose properties in which after-rehabilitation market (unregulated) rents on at least 80 percent of the assisted units are below the applicable areawide payment standard for the Modified Section 8 Existing Housing program. Thus, a significant number of units in each rehabilitated property will be available to low-income tenants eligible for Modified Section 8 Existing Certificates. Furthermore, the neighborhoods for program activity as a result of this performance requirement will generally be areas where rent levels are not appreciating rapidly and units are likely to be affordable by Certificate holders for some years. Second, program rules will require localities to penalize property owners who have received Rental Rehabilitation funds and are found to have refused rental to individuals/families merely because the latter hold Modified Section 8 Certificates.

Question: Is the Department considering establishing any requirements that rents for the projects to be assisted are kept with the rent payment standards established for the voucher program?

Answer: No, the Department does not propose to impose such requirements on localities or to allow States to establish such requirements. However, as noted in a previous response, the program performance standard states that 80 percent of all rehabilitated units be affordable to Modified Section 8 Certificate holders. This, in turn will generally result in the selection of neighborhoods where rents are likely to remain compatible with the Section 8 rent payment standards.

State Block Grant Program

In your opening statement, you note that the response of States across the country to the opportunity to determine how to distribute over $1 billion in Community Development funds to communtiies under 50,000 has been noteworthy.

Question: How many States have now exercised their option under the new legislation to administer the Small Cities program?

Answer: Thirty-six States plus Puerto Rico have advised the Department that they will assume responsibility for the program in fiscal year 1982. Nineteen have submitted the Final Statement, which is the step immediately preceeding a contract. Thirteen have submitted a Notice of Election to be followed by the Final Statement, which must be submitted by September 8.

Question: How many do you estimate will assume this responsibility during FY 82 and FY 83?

Answer: We expect the 36 States plus Puerto Rico to assume responsibility for the program in fiscal year 1982. For fiscal year 1983, we anticipate about 45 to 48 States will assume responsibility for the program.

Question: What data will HUD collect in order to characterize how these small city funds are being utilized?

Answer: We will have on file the Final Statement from each State which, in many instances, describes how the funds are to be utilized. In addition, we have developed a profile of each State's program based on these statements and other information. Moreover, the States are required to submit an annual report which will also provide some information concerning the utilization of funds.

CDBG and Urban Development Action Grant Funding

On your original Budget request, OMB recommended that the combined CDBG and UDAG program be reduced to $2.4 billion in 1982, then go to $1.2 billion in FY 83 and finally to zero in FY 84.

Question: In arriving at the current FY 83 request, did you come to any agreement with OMB as to what an appropriate FY 84 level might be?

Answer: Multiyear planning figures, developed as part of the 1983 Budget, show the CDBG and UDAG programs continuing at the same funding level in 1984 as in 1983. However, the actual 1984 funding level proposals will be determined by the Administration during the course of the 1984 Budget process.

Policy Development and Research

Question: As a result of recent reductions in your PD&R budget, HUD has directed its efforts away from innovative housing technology research and towards improving and reducing the cost of existing, readily adoptable technology.

Could you please explain why the housing program research activity budget was reduced by 62% from the fiscal year 1981 level while the other 6 major budget areas decreased an average of only 44%?

Answer: Previous work in this category included the Section 8 analysis and data collection which was very costly. The current budget reflects a decrease in funding effort, in that no large obligations for additional data collection is planned. The results of previous work are now being used as a source of information for current research. Moreover, a decrease in this budget category is possible because of our new reliance on in-house staff for policy analyses and research.

Question: What changes will PD&R make in research priorities as a result of the budget cuts?

Answer: With the reduced resources available, PD&R revised its research priorities towards work that would result in short-term, practical solutions to the Department's problems. Long-term issues and the institutional expertise necessary to serve the Department well in the future will not be ignored, but the current emphasis is on practical, policy-oriented research, making use of in-house staff and relying less heavily on outside consultants.

Question: What research and technology activities will be affected by the decrease in fiscal year 1982 and 1983 budget levels?

Answer: PD&R plans to fund less of the costly data collection activities than was previously the case. Where possible, in-house resources will be utilized rather than the contracting-out process. Generally, those activities that do not have a current policy orientation will be reduced in favor of those specifically aimed at improving the Department's program services, reducing costs, and increasing efficiency.

Question: In a report issued in February, GAO found that the Department could do more to encourage the use of innovative, cost-saving technology in home building through a more vigorous Federal role in developing and promoting new building materials and techniques.

What is HUD doing to assure this more active role?

Answer: HUD has several programs underway to promote such new technology and cost-saving techniques. Through the National

Home Builders Association, PD&R is distributing a series of "Cost-Cuts" brochures that detail innovative cost-reducing ideas not yet in general practice. As a major participant in the Joint Venture for Affordable Housing, PD&R is encouraging demonstrations which will result in more affordable housing, through building code reforms, zoning changes, innovative housing and revised site development regulations. PD&R's "Building Value Into Housing" program provides direct grants to builders for new designs and construction techniques.

Question: The report further concluded that HUD could do more with existing resources, such as pooling research efforts with those of other agencies or organizations also involved in home building research.

Specifically what is HUD doing in conjunction with the National Institute of Building Sciences to implement this GAO recommendation?

Answer: PD&R is working closely with the National Institute of Building Sciences in this area. For example, HUD has earmarked funds to support NIBS in a joint effort with other Agencies to study the building products approval systems in the U.S. Also PD&R plans to fund NIBS to help develop general recommendations of where Federally-supported research can best serve the building industry.

Congregate Services Evaluation

Earlier this year you informed us that approximately $1.3 million is committed to the evaluation of the Congregate Services Housing Program. You further notified us that this evaluation will be completed in early 1984.

Question: Could you please bring us up-to-date as to the status of this report and the findings included in your preliminary reports to date?

Answer: The first phase of the evaluation of the Congregate Housing Services Program (CHSP) is currently being completed. During the first phase, baseline data is being collected that compares the health and well-being of the CHSP participants to a sample of tenants at comparable public housing and Section 202 sites who did not receive CHSP services. This phase of the data collection will be completed during the summer of 1982. The next phase, which will begin in the fall of 1982, involves the collection and documentation of CHSP costs. During the final phase of the evaluation which is scheduled to begin in June of 1983, data will be collected that will enable an assessment to be made of the impact of the CHSP in terms of preventing unnecessary institutionalization. A preliminary report on the planning and implementation of the CHSP documented the start-up activities and described the variations in program models at the demonstration sites.

Fair Housing

Last year we provided $5,700,000 for your Fair Housing and Equal Opportunity Program. Part of the original plan entailed funding 130 Community Housing Resource Boards (CHRB).

Question: What resources have been provided to CHRB to date during FY 1982?

Answer: As of May 19, 1982, no funds have been provided to Community Housing Resource Boards. Interim regulations became effective on May 12, 1982 and the Notice of Funds Availability was published on March 25, 1982. Panels have been selected and trained to review applications. Final selection of funded CHRBs will be made by July 30.

Your FY 1982 Budget assured that you would be able to support 70 State and local agencies -- up from 57 in FY 1981.

Question: What is your actual experience to date?

Answer: Based on actual experience through May 20, 1982, we have supported 45 agencies under the program. As of May 12, 1982, we have identified an additional 24 agencies which are eligible, and we expect all but two or three to apply for support under the Notice of Funds Availability which was published on May 6, 1982.

Question: At what level will you be able to support these agencies during FY 1983 vs FY 1982?

Answer: Agencies participating for their first and second year receive "capacity building" support pursuant to a formula which is based on the total HUD complaint receipts in each agency's jurisdiction. Agencies participating in their third year and beyond are reimbursed only for the actual number of complaints processed, on a per complaint basis. In FY 1982 this unit reimbursement level has been set at $500.00 per complaint.

The level at which we will be able to support agencies in FY 1983 will depend upon the following variables:

- The number of agencies participating in FHAP,
- The number of housing discrimination complaints received by HUD in the jurisdictions of all first and second year agencies,
- The number of complaints actually processed by third year agencies, and
- The total appropriation for FHAP in FY 1983.

By all current indications, the number of eligible agencies should increase in FY 1983. Moreover, we are currently experiencing a significant increase in Title VIII complaint receipts nationwide--a 45% increase during the first six months of 1982 as compared to the first six months of 1981. If these trends continue, and using the $3.7 million figure as a base, we would expect to be able to maintain current levels of support for actual complaint processing efforts only by either reducing the formula levels of support to first and second year agencies, increasing support for the noncompetitive component of the Program at the expense of the competitive (project oriented component), or both.

Staffing

Question: Please indicate the FY 82 vs. FY 83 difference in staffing for each of your activities and sub-activities and briefly explain the Department's rationale for each of the changes.

Answer: The following identifies the staff reductions anticipated between October 1, 1982 and September 30, 1983.

FY 1982 - Total FTP, End of Year	14,300
Housing (7,199 - 7,121)* Net effect of increased FHA Mortgage Insurance activities offset by reductions in subsidized multifamily and public housing programs, including a partial reduction of existing construction pipeline	-78
Community Planning and Development (1,535 - 1,442)* Reduced program activities in the areas of Community Development Block Grants, Section 701, Section 312, Relocation and Environmental Assistance	-93
New Community Development Corporation (50 - 48)* Winding down of programs and successful liquidation and separation efforts	-2
Administration and Staff Services (1,406 - 1,334)* Supporting reduced program and staff levels	-72
Working Capital Fund (349 - 341)* Supporting reduced program and staff levels	-8
Field Direction and Operational Support (620 - 602)* Supporting reduced program and staff levels	-18
Field Administration (1,152 - 1,123)* Supporting reduced program and staff levels	-29
All Other (1,989 - 1,989)*	-0-
Net Change	(-300)
FY 1983 - Total FTP, End of Year	14,000

* FY 1982 and 1983 end-of-year staff, respectively.

SES Bonuses

Question: How much have you included in your budget request for SES bonuses during FY 83?

Answer: There is no discrete line item for SES bonuses. The number of Secretarial Rank Awards which may be issued is based upon the total number of SES positions encumbered by career staff at the end of the fiscal year. The dollar value of the award pool is based upon a formula which includes, as a factor, the salary levels of the incumbents. Similar constraints are applied to Presidential Rank Awards. Thus, since both the number and value of the awards cannot be established until the fiscal year in which they are issued, no specific estimate is generally provided in the budget presentation. We estimate that the value of such awards will be approximately $125 thousand during FY 1983.

HUDMAP

Question: Why did cost overruns of such magnitude occur in HUDMAP and what is HUDMAP's current status?

Answer: The initial estimate of $4.6 million provided to the Appropriations Committee in May 1975 was for contractual systems development and programming costs only, and did not include costs for a wide variety of items such as systems handbooks, training, installation, temporary personnel, supplies, rental of facilities, and equipment. These items had not been factored into the total cost of the project. This was reported by the GAO in 1980 (GAO Report FGMSD 80-37, Delays in Implementing the Department of Housing and Urban Development's Accounting System for its Mortgage Insurance Program). In addition to the above, several revisions to the general design in 1977 and 1978 increased the design cost of the program from $4.6 to $10.6 million.

GAO further noted that the absence of a formal system, from the beginning, to estimate, control and accumulate the system's total development, conversion and installation costs, together with the costs attributed to insufficient planning and lack of effective management controls, contributed to the significant growth in the estimated cost of the project from May 1975 to July 1981. We recognize the GAO comments as valid statements of the situation and, since the early summer of 1981, we have been planning and undertaking a new direction in the program to assure better control over the costs and the process.

The current status of HUDMAP is that we have identified fifteen project modules for implementation. They are directed by a project director and project staff from Housing and Administration. In order to strengthen the management control of this process, the Assistant Secretaries for Housing and Administration have established a Management Committee, which is chaired by the Associate General Deputy Assistant Secretary for Housing with the Director of the Office of Finance and Accounting as vice chairperson. The members of the Management Committee consist of top management officials from Housing and Administration and provide direction and review the progress of each of the projects.

Basically, we have redirected the effort to involve contracting with the private sector and conducting a limited amount of internal systems development. We plan to spend $4.3 million through FY 1984 for contracting with the private sector which we believe will be more cost effective than performing the functions in-house.

Question: Please provide for the record a list of completion dates for each of the elements of HUDMAP.

Answer: The following table provides the dates for each of the elements (modules) of HUDMAP to be under contract:

Single Family Notes Servicing	June 1982
Single Family Premium Billing	August 1982
Multifamily Property Management	September 1982
Multifamily Notes Servicing	September 1982
Title I Notes Servicing	September 1982
General Accounting	November 1982
Single Family Property Disposition	December 1982
Single Family Underwriting	June 1983
Multifamily Underwriting	June 1983
Multifamily Premium Billing	June 1983
Single Family Claims	July 1983
Multifamily Claims	July 1983
Title I Claims	July 1983
Distributive Shares	November 1983
Title I Underwriting and Premium Billing	March 1984

Dates for complete operational status will depend on the speed with which the contractors can convert or absorb HUD files and workload. Completion dates for total implementation will therefore be set as we get commitments on each of the modules. As the schedule becomes available we will keep the Committee informed.

Full-Time Permanent Employees

Your fiscal year 1983 budget assumes an estimated 14,000 permanent employees.

This represents a decrease of 300 employees from the estimated end-of-year FY 82 level.

One of the areas most affected is HUD's Office of Housing. This Office will have 78 fewer employees in FY 83 than in FY 82.

Question: How many of these positions will come out of the field offices?

Answer: The entire reduction of 78 positions is in the field.

Question: How many will come out of headquarters?

Answer: None.

Question: Please prepare, for the record, a chart showing the changes from your FY 82 level for each office.

Answer: The staffing projections for Housing Programs developed for the budget request are on a total field basis and do not provide an office-by-office distribution. However, the estimates do include a distribution of field staff between housing development and housing management activities by Regional Headquarters and Field Offices, as follows:

	Full-Time Permanent Employees End-of-Year		
Housing Field Staff	Estimate FY 1982	Estimate FY 1983	Increase + Decrease -
Development Activities:			
Regional Headquarters......	67	67	...
Field Offices..............	2,866	2,704	-162
Subtotal, Development...	2,933	2,771	-162
Management Activities:			
Regional Headquarters......	56	56	...
Field Offices..............	3,395	3,479	+84
Subtotal, Management....	3,451	3,535	+84
Summary Totals:			
Regional Headquarters......	123	123	...
Field Offices..............	6,261	6,183	-78
Total..................	6,384	6,306	-78

You note in your opening statement that the personnel levels projected for the Department are based on a revised program and workload estimates contained in the FY 83 budget and they assume the enactment of the rescissions proposed by the President.

Question: In the event that the FY 82 rescissions are not enacted, what impact would this have on staffing requirements at HUD?

Answer: The FY 1982 rescissions proposed for Housing activities represent a workload of 310 staff-years. However, since almost three quarters of the fiscal year is over, the bulk of the work and resource requirements would carry over into FY 1983.

Question: In the event that the FY 83 bill represents program levels contained in P.L. 97-101, what would be your staffing requirements for FY 83?

Answer: Based on computations using the Department's Work Measurement System, an increase of 475 positions to the current FY 1983 request would be required. This provides for maintaining the program levels approved for FY 1982 as a result of the denial of the rescission requested and the carry over and pipeline impact of the FY 1982 approved program levels. However, a request for additional staff would be submitted by the Department only if this requirement could not be absorbed within the total staffing of 14,000 positions.

Information Collection Budget

Last year, at our hearings, I noted that I was concerned about the millions of hours required by the public to comply with HUD's information requirements. I notice in your opening statement that the Department was able to achieve a reduction of 29 percent from the FY 1981 adjusted base.

Question: What additional efforts will the Department undertake during the remainder of FY 82 and during FY 83 to continue to reduce the necessary reporting burden?

Answer: We have no specific further reductions to identify at this time. We are, however, currently preparing our FY 1983 Information Collection Budget submission, which we anticipate will indicate further reductions of unnecessary, obsolete, and duplicative reporting requirements imposed on the public. The anticipated reductions will be, in part, the result of our attempts to institutionalize an awareness of the Paperwork Reduction Act. The attempts include the incorporation of a comprehensive review of all reporting requirements included in the clearance process for Departmental issuances and regulations and the establishment of a reports clearance process that assures that the data to be collected are required and necessary, are not duplicative of other data collection activities, and are provided only as often as is essential. We have also recently completed the first phase of a comprehensive survey of compliance with the Act by field offices. The results of that survey will be included in our FY 1983 Information Collection Budget request.

Debt Collection

Last September you announced that HUD had launched a concentrated effort in six areas to collect an estimated $1.3 billion in delinquent debts owed the Department. The six areas which account for over 90% of the delinquent debt in which the Department intended to focus on more multifamily HUD-held mortgage notes, single family HUD-held mortgage notes, Title I default notes, Section 202 default, Section 312 defaults and the New Community Development Corporation.

Questions: How much has the Department actually collected as a result of this effort to date? What goals have you established for collection during the remainder of FY 82?

Answer: The department has collected $349.2 million in these six areas as of March 31, 1982. HUD's goal in these six areas amounts to $676.4 million. The amount collected, (representing 51.6 percent of HUD's FY 1982 goal) as well as the goal established for the remainder of FY 1982 are as follows:

DEBT COLLECTIONS FOR 6 MONTHS ENDING MARCH 31, 1982

		ACTUAL COLLECTIONS Fiscal Year to Date		
Program	FY 1982 Goal	Dollars	Percent	Remaining Goal
		(Dollars in Thousands)		
Multifamily Mortgage Notes.....	$312,058	$158,256	50.7	$153,802
Single Family Mortgage Notes...	46,002	17,331	37.7	28,671
Title I Defaulted Notes........	15,000	4,980	33.2	10,020
Section 202 Loans..............	230,261	121,323	52.7	108,938
Section 312 Loans..............	73,100	33,477	45.8	39,623
New Community Development Corp.	...	13,852	...	(13,852)
TOTAL....................	676,421	349,219	51.6	327,202

QUESTIONS SUBMITTED BY SENATOR SPECTER

Public Housing Operating Subsidy Needs in Pennsylvania

Mr. Secretary, the Harrisburg Housing Authority in my State has a record of competent administration. However, they have advised me that they have been forced to join many other Public Housing Authorities in a lawsuit against HUD to get monies appropriated by Congress. Last year, working with Chairman Garn, I sought to provide monies to make up the shortfall in funding for operating subsidies for Fiscal Year 1981, based on figures HUD gave us.

Now, the Harrisburg authority tells me that to get its share of those funds ($204,239), HUD is compelling it to give up its rights to 2-1/2 times that amount ($513,000) in year-end utility adjustment. It was never our intention that authorities give up year-end utility adjustments to receive the 1981 shortfall funds.

Question: Why is HUD presenting housing authorities like the Harrisburg Authority with this difficult choice?

Answer: On May 14, 1982, the Department advised all Field Offices that this requirement was waived and to so inform the Public Housing Agencies. However, it is not anticipated that additional funding applicable to 1981 requirements will be available.

Question: For the record, when will the Harrisburg Housing Authority receive its 1981 shortfall funds? When will it receive its full share of the 1982 appropriation?

Answer: The Harrisburg Housing Authority received its 1981 utility cost funds in the amount of $140,771 on June 9, 1982. On May 27, 1982, it received $523,265 for the first and second Quarters of its 1982 subsidy. It is scheduled to receive an additional $523,264 in monthly installments for the third and fourth Quarters. Since the 1982 subsidy is being paid at only 75 percent of the 1981 level, pending the determination of subsidy amounts, Harrisburg will receive additional payments upon completion of the Department's 1982 subsidy calculations.

Question: Mr. Secretary, the Philadelphia Housing Authority has also told me that, despite the fact that their fiscal year began April 1, they have yet to receive their 1982 operating subsidy allocation. Why is this so? How can they operate without timely funding?

Answer: On May 14, 1982, the Department requested the Treasury to make a payment of $6,983,450 to the Philadelphia Housing Authority covering FY 1982 subsidy advances for its three Annual Contributions Contracts.

Question: Mr. Secretary, do you have any concern that your Department's policies of withholding monies needed for low-income housing may be seen as anti-poor?

Answer: The Department does not interpret the action as withholding of monies inasmuch as the FY 1981 "add-on" funds were assigned to the Field Offices on March 2, 1982 and the FY 1982 funds were assigned on March 5, 1982. This was shortly after the fund apportionments were approved by the Office of Management and Budget.

Question: Does it not suggest that the HUD positions may be unreasonable when it is being sued, I am advised, by 15 or so major housing authorities, big and small, troubled and previously trouble-free, located in all geographic regions?

Answer: No, the Department's actions do not suggest unreasonable financial management. The Department is doing its best to assist Public Housing Agencies (PHAs) in distributing the funds within the limitations of the appropriation. Because some of the issues concerning the Department's financial management practices are under litigation, it would be inappropriate to comment on them further at this time.

QUESTIONS SUBMITTED BY SENATOR HUDDLESTON

1981 Supplemental for Public Housing Operating Subsidies

Congress provided a $140 million Supplemental Appropriation for Public Housing Operating Subsidies for Fiscal Year 1981.

Question: Have all of these funds been allocated?

Answer: All the funds have been assigned to Field Offices and are in the process of being distributed to eligible Public Housing Agencies (PHAs).

Question: With the Supplemental, what percentage of the Fiscal Year 1981 PFS (Performance Funding System) requirement was finally covered?

Answer: All PHAs will be funded at approximately 96.5 percent of 1981 Performance Funding System eligibility.

Question: I understand that HUD indicated to authorities in Kentucky that it intended to fund all authorities at 96.5 percent of their eligibility, but that the Area Office did not have sufficient funds to meet this. Could you explain that situation and how you are handling it?

Answer: The $140.6 million was assigned to Field Offices based upon estimates of the funds required to increase 1981 funding for each PHA to 96.5 percent of its eligibility. A readjustment of fund assignments among Field Offices will be made based upon actual obligations and any funding becoming available for redistribution. In the case of the Louisville Housing Authority, however, the Field Office determined that the Authority had been overfunded in 1981. The subsidy overpayment in 1981 will be recovered in 1982 by adjusting the 1982 funding paid to the Authority.

Public Housing Operating Subsidy Payment Certification

In distributing the Fiscal Year 1981 Supplemental funds, HUD asked local Housing Authorities to sign releases to the effect that this supplemental payment constituted "full and final settlement" of all Operating Subsidy for FY 1981, including reimbursement for consumption overruns and utility rate increases for FYs 1980 and 1981. According to local Housing Authorities, this was an unprecedented move.

Question: What was HUD's intent in doing this?

Answer: The distribution of the 1981 supplemental funding was dictated by the fact that the apportionment providing Fiscal Year 1982 funding to the Department did not provide for payment of utility adjustments. The Department, nevertheless, considered it important to "close the books" on 1981 by providing for a payment that would be applicable to all adjustments attributable to that year together with an indication that payments made should be considered as a final settlement of all payments for the year.

However, the Department recently decided to waive the requirement that Public Housing Agencies (PHAs) submit a Board of Commissioners' resolution indicating acceptance of full and final funding prior to receiving payment of the supplemental funds. However, it is not anticipated that additional funding applicable to 1981 requirements will be available.

Status of 1982 Public Housing Operating Subsidy Appropriation

For Fiscal Year 1982, Congress has appropriated $1.152 billion for Operating Subsidies.

Question: What is the status of the allotment of these funds?

Answer: All of the funds have been allotted to the Assistant Secretary for Housing. Approximately $637 million of these funds have been assigned to Field Offices for approval and distribution to Public Housing Agencies (PHAs) with fiscal years beginning January 1, April 1 and July 1, 1982. The Performance Funding System Handbook which governs the formula calculations for 1982 was published July 1, 1982. The recently enacted Urgent Supplemental Appropriation provided an additional $198 million for 1982 and the Department expects to assign the supplemental funds as well as the balance of the regular appropriation shortly.

1982 Public Housing Operating Subsidy Allocation

Question: Does HUD intend to allocate the Fiscal Year 1982 funds according to the Performance Funding System (PFS) as directed?

Answer: The Department intends to allocate 1982 Operating Subsidy funds in accordance with the PFS, but with certain adjustments to take into account reductions in subsidy need resulting from energy conservation as well as Administration initiatives directed toward cost limitations and increased State and local support of Public Housing.

Public Housing Operating Subsidy Requirements

Question: According to current estimates, what percentage of the Performance Funding System (PFS) requirements will the $1.152 billion cover?

Answer: The Department feels that the current appropriation is adequate to fund all Operating Subsidy requirements in Fiscal

Year 1982 through the use of specific measures aimed at reducing costs or increasing tenant contributions. Among the more substantive savings which are expected to accrue are: a reduction in the utility consumption by 10 percent based upon experience in the private sector ($104 million savings); savings accruing as a result of Modernization funding since 1975 ($40 million); increased State and local contributions ($42 million); an increase in the rent/income ratio to 26 percent based upon the Housing and Community Development Amendments of 1981 ($25 million) and other initiatives which are expected to save another $40 million.

Question: What would you need to fund the program at 100 percent?

Answer: The appropriation of $1.152 billion is expected to be adequate based on the Department's current assumptions of inflation, tenant rent payments, reductions in utility consumption and State and local contributions.

Question: What inflation and utility rate factors are you using?

Answer: The Fiscal Year 1982 estimate assumed that the inflation increase for non-utility costs would be 7.5 percent and that the increase in utility rates would be 15.2 percent.

1983 Public Housing Operating Subsidy Estimate

Question: The Fiscal Year 1983 request for Public Housing operating expenses is $1.075 billion. How do you intend to allocate those funds?

Answer: The Department is in the process of evaluating various alternatives to the Performance Funding System. Pending any decision as to the effectiveness of the alternatives under study, it is the Department's intent to allocate 1983 funding based upon the PFS formula as adjusted to reflect the impact of energy conservation measures, Administration initiatives directed at cost containment and increased local support of Public Housing.

1983 Public Housing Operating Subsidy Requirements

Question: According to current estimates, how much would it take to fully fund the PFS in 1983?

Answer: The current estimate is that the $1.075 billion will allow for fully funding the Performance Funding System requirements in 1983 based on the assumption that certain savings from 1983 will occur including a savings of $122 million as a result of decreasing the utility consumption based by 10 percent to reflect private-market experience, $100 million from including food stamps as income to tenants, $93 million in State and local contributions, $50 million of energy savings from Modernization, $50 million in increased rental income based on the provisions of the Housing and Community Development Amendments of 1981 and an increase in the rent rise cap to 20 percent and other measures which will result in additional savings of $86 million.

Increased Tenant Rents

Question: Has the 1 percent increase in tenant rent contributions authorized last year been implemented?

Answer: The regulations implementing the increases in the maximum tenant rent were published in the Federal Register on May 4, 1982, but are not yet in effect.

Question: Do you have any indication of the additional amount of income which will be generated in Fiscal Year 1982? I believe you were projecting about $60 million at one time.

Answer: The estimate contained in the 1983 Budget of the additional amount of income which would be generated in FY 1982 was $25 million. However, since regulations have not been put into effect, the actual impact in 1982 will be substantially less.

Question: How will the additional tenant increases scheduled over the next several years be implemented?

Answer: The maximum tenant rent will increase to 26 percent when the regulations become effective and will increase in 1 percent increments (up to 30 percent) each year thereafter beginning October 1, 1982.

Question: Will further regulations be required?

Answer: No. Currently proposed regulations will be sufficient to implement the rent increases authorized by the Housing and Community Development Amendments of 1981.

Minimum Rents

Question: What do you foresee in terms of a minimum rent policy at this point?

Answer: The minimum rent policy for units assisted under the United States Housing Act of 1937, as amended, was specified in Section 322 of the Housing and Community Development Amendments of 1981. Section 322 includes in pertinent part the following:

> "A family shall pay as rent for a dwelling unit assisted under this Act the highest of the following amounts, rounded to the nearest dollar.
>
> (1) 30 per centum of the family's monthly adjusted income;
>
> (2) 10 per centum of the family's monthly income; or
>
> (3) if the family is receiving payments for welfare assistance from a public agency and a part of such payments, adjusted in accordance with the family's actual

> housing costs, is specifically designated by such agency to meet the family's housing costs, the portion of such payments which is so designated."

For current tenants, the increase in tenant rent burden from the previous rate of 25 percent to 30 percent will be phased-in over a 5-year period. Section 322 also provides that the rent paid by any current tenant shall not increase by more than 10 percent during any 12 month period as a result of the amendments contained in the HCD Amendments of 1981.

The 1983 Budget assumes enactment of legislation permitting the inclusion of food stamps in the determination of family income. For that reason legislation is proposed to increase the limitation on annual rent increases from 10 percent to 20 percent.

Utility Cost Reductions

Earlier this year HUD proposed that payments to cover utility costs be reduced according to the amount of modernization funds used for energy conservation.

Question: What assumptions underlie this proposal?

Answer: The proposal assumed a 14.8 percent annual payback on funds spent for energy related modernization.

Question: Does it realistically account for temperature variations and utility cost changes?

Answer: It does not account for temperature variations. It would be calculated as an adjustment to the consumption base of each Public Housing Agency (PHA). PHAs would apply their current utility rate to the adjusted base and, therefore, utility cost changes would be accounted for realistically.

Question: What is the status of the proposal?

Answer: This proposal is being reviewed by the Department along with some alternative proposals for reducing the consumption base.

Troubled Public Housing Agencies

A number of Public Housing Authorities--and an increasing number of small and medium size ones--are encountering increasing financial problems.

Question: Is HUD monitoring local Housing Authorities and does it have any particular criteria for determining when one is in trouble?

Answer: All PHAs are monitored by the HUD field offices. However, large PHAs--those with 1,250 units or more under their jurisdiction--must also develop a Financial Workout Plan in conjunction with the local HUD field office and submit such plan to Headquarters for approval. The Department classifies PHAs with operating reserves of 20 percent of maximum or less as "financially troubled".

Although Headquarters is currently involved only with respect to the large, financially troubled PHAs, we will shortly be requiring that the field offices develop and monitor Financial Workout Plans for PHAs having from 500 to 1,249 units in the event their operating reserve level falls to 20 percent or less of maximum. At the present time, we do not anticipate imposing this requirement in connection with PHAs of less than 500 units.

Housing Assistance Council

For several years, the Housing Assistance Council (HAC) has been funded through the Policy Development and Research (PD&R) account.

Question: What are your plans for HAC in fiscal year 1983?

Answer: The actual amount of funding for the Housing Assistance Council will depend upon a review of the Department's priorities and Congressional action on the research appropriation. It is anticipated that the amount will be approximately $500 thousand.

* * *

HAC has been one of the few rural initiatives funded through the PD&R account.

Question: What other rural efforts has PD&R undertaken in fiscal year 1982?

Answer: During fiscal year 1982 work is continuing with the demonstration of the use of small rural housing cooperatives to aid in the delivery of housing services to low-income rural families. Also, PD&R has funded the Neighborhood Reinvestment Corporation to demonstrate a rural adaptation of the neighborhood housing service model.

Question: What are your plans for use of PD&R funds for rural research in fiscal year 1983?

Answer: For fiscal year 1983 research funds will continue to be used to find ways to improve the delivery of rural housing and community development services.

Question: How much of your fiscal year 1982 PD&R funds have you obligated to date?

Answer: Through May 30, 1982, $10.0 million of PD&R research funds have been obligated.

Question: Are any funds likely to be obligated for rural programs in the fourth quarter of fiscal year 1982?

Answer: No funding actions for rural programs are planned for the fourth quarter of fiscal year 1982.

Mortgage Revenue Bonds

Question: What is the Administration's position on the use of Mortgage Revenue Bonds?

Answer: The use of revenue bonds to finance single family and multifamily housing has provided a useful stop-gap way to make homeownership or lower rents possible for many families. The program appears quite effective over the short run.

Question: Under current law, State and local issuers of homeownership bonds are faced with a December 31, 1983 program termination or sunset date. Has the Administration taken a position on this?

Answer: The Administration favors the December 31, 1983 termination (sunset) date on the existing legislation governing the issuance of homeownership bonds by State and local governments.

Impact on Pipeline Due to Financing Adjustment Factor Revisions

In submitting your revised recission request to Congress, you allowed for an increase in the Financial Adjustment Factor (FAF) to 14 percent and for contract amendments.

Question: How much of the Section 8 pipeline do you expect to cover as a result of these changes?

Answer: As a result of the revised proposals, the Departmental estimates of construction starts have been revised from the previous 40,000 units up to 70,000 units.

Question: Certain Section 8 projects, including less than 100 percent Section 8, do not qualify for FAF, although they could qualify for Tandem. How many projects, units and of what type do you expect to lose from pipeline projects that do not qualify for FAF?

Answer: The Department estimates that authority covering 29,000 Section 8 New Construction and Substantial Rehabilitation units will be deobligated from the pipeline in FY 1982 and authority for 16,000 units will be deobligated in FY 1983. Although the exact number of units cannot be determined, it is assumed that a portion of these deobligations will be the result of the inability of certain projects to obtain the Financing Adjustment.

Question: What do you assume will happen with pipeline projects of State Housing Finance Agencies?

Answer: Housing Finance and Development Agency (HFDA) pipeline projects that are able to reach the construction start stage by August 1, 1982 will be eligible for the Financing Adjustments. The funding for HFDA project Financing Adjustments will be available from tranfers of authority from HFDA projects.

Financing Adjustment Factor

Many projects all over the country are being cancelled in order to provide amendment money for those Section 8 pipeline projects that are attempting to meet the June 1 construction deadline.

Question: Since additional FAF amendment money has not yet been made available, will provisions be made to somehow retain those projects in the pipeline that do not make the June 1 deadline and yet want to remain eligible should Congress provide these additional funds?

Answer: The Department has proposed raising the FAF interest ceiling to 14 percent and extending the deadline to August 1st. The recently enacted Urgent Supplemental further extended the FAF deadline to October 1, 1982 and authorized the use of up to $1.75 billion in deferred budget authority for FAF in addition to recaptures and transfers. Pipeline projects are still being processed and will be allowed to continue under the new October 1 deadline.

Question: Assuming that the additional FAF and contract amendment money is made available in the next several weeks, when would you expect to move these projects?

Answer: No decision has been made on whether or not to use the $1.75 billion for FAF. However, we will be operating the program under the 14 percent ceiling and the October 1 deadline, and therefore expect most of the pipeline projects to start construction by October 1, 1982.

Question: Are any further regulations required?

Answer: The current regulations will be revised as necessary to reflect the provisions of the Urgent Supplemental.

Public Housing Construction

Question: Is there any amendment money or other assistance for Public Housing construction?

Answer: The FY 1983 Budget included an estimate of $16 million of contract authority and $500 million of budget authority for amendments to Public Housing projects in FY 1983. This amendment authority will be utilized to ensure the construction and completion of viable Public Housing projects in the pipeline.

Community Development Block Grant

Question: My State of Kentucky administers the small cities grant program, but it is one of the few States which does. For those States not administering it, I understand there are no regulations and no small cities money has been allocated. Will this soon be corrected?

Answer: Thirty-six States, in addition to Kentucky, have decided to administer the program in fiscal year 1982, leaving 14 States in which HUD will administer the program. We anticipate the regulations to implement the HUD-administered Small Cities program will be issued in the near future.

Question: In your regulations on income repayment for States administering the Small Cities program, do you intend that repayments go back to cities, States or that it be at the discretion of the States?

Answer: The regulations leave that decision up to the States. A State may permit the cities to retain program income or it may require cities to return the program income to the State. Most States have decided to permit cities to retain program income for use in their own programs.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Mortgage Servicing Contract

The Department has notified the Committee that it plans to use FHA funds to contract out for certain loan servicing functions for HUD-held and HUD-insured mortgages. I understand the Department in December 1981 let a sole source negotiated contract with the Mercantile Mortgage Corporation of Baltimore, Maryland to service the HUD-held mortgages in HUD's Philadelphia Region. This contract, among other things, is designed to improve debt collections for HUD-held multifamily projects in accordance with the Department's commitment to OMB and HUD's September 30, 1981 Action Plan for Debt Collection which recommended that a contract for loan servicing and accounting for HUD-held mortgages be let in one region to be used as a demonstration of the third party servicing approach. The non-competitively awarded contract to Mercantile Mortgage Corporation became effective March 1, 1982, and provides that the Corporation will be paid 60 percent of the monthly service charges it collects not to exceed $800,000 per year. The contract is for a four year period.

Also, the Department on April 30, 1982, issued a request for proposal for the award of a nationwide contract similar to the one awarded Mercantile with a total fixed price not to exceed $10 million per year. I note that the nationwide contract will be awarded almost solely on the successful bidder's demonstrated capability and experience.

Question: Does that mean the Mercantile Mortgage Corporation is going to have an advantage over other potential bidders by its current contract and therefore receive the nationwide contract?

Answer: The factors for award generally consist of (1) demonstrated capability, experience, and commitment, and (2) an administrative arrangement and organizational plan for phasing-in the nationwide implementation by Region which provides for managing and monitoring the sub-contractors or affiliate networks and also assures uniformity of application to contract performance, reporting requirements and computer systems capability.

Of the considerable number of potential bidders showing interest in the Request for Proposal (RFP), the majority have the demonstrated and/or potential capability and experience. Conversely, the majority, including Mercantile Mortgage Corporation, do not have a nationwide network in place to accommodate the Regional phase-in and the computer systems and reporting capabilities. These bidders will have the same opportunity as everyone else to provide an administrative plan and organizational arrangement as part of the proposal that is required by the RFP.

Question: What are the expected cost benefits to be derived from the Mercantile contract? For example, could you tell us what the Department's yearly costs were for the services covered by the Mercantile contract?

Answer: The expected cost benefits to be derived from the Mercantile contract are (1) substantially increased revenues to the Department from the collection of outstanding debt, (2) more aggressive servicing to prevent increasing delinquencies, and (3) the stabilization and curing of delinquencies. Bringing the mortgages current will increase the value of the assigned notes and reduce the need for foreclosure. In addition, the contract will strengthen existing accounting systems and provide a more consistent and accurate tracking and maintenance of accounts collection and servicing data.

The Department's annual costs as compared with the costs of the services covered by the Mercantile contract can be obtained from the analysis required by the Office of Management and Budget (OMB) Circular No. A-76, which is currently in preparation, for executing a nationwide contract which should provide a better understanding of the services in relation to costs.

Question: What was your collection rate for the multifamily projects in the Region III office for the 12-month period prior to the MMC contract?

Answer: Automated systems are being developed which will enable the Department to retrieve collection data for accounts prior to March 1, 1982 when the Mercantile Mortgage Corporation (MMC) started its billing and collection functions. However, data are being gathered manually to provide information for the 12-month period prior to the MMC contract. This information will be available by the end of July 1982.

Question: How does your past performance compare with that of Mercantile's to date?

Answer: The statistical data and the systems development referred to in response to the previous question will provide this information in detail. A preliminary calculation, however, indicates that the Department's collection rate nationwide was approximately 15-20 percent of the total outstanding balances. Mercantile's first three months of operation indicate collections of approximately 60-65 percent of the total outstanding balances in Region III. Because this collection data cannot be identified readily by Region, Mercantile's performance in Region III cannot be compared with the Department's performance in Region III.

Question: What stated goals do you expect will be achieved?

Answer: Expected goals to be achieved include (1) the establishment and maintenance of current and accurate accounting data and reporting by project accounts, (2) the protection of security interest in the mortgages, and (3) getting and maintaining the inventory in a current status.

* * *

I understand that the Mercantile contract, while requiring the contractor to submit certain quarterly progress reports, doesn't really call for the contractor to submit a true cost-effectiveness evaluation until the first anniversary of the contract or around March 1983. At that time, the contractor is supposed to furnish HUD a performance report which shall compare the relative costs to HUD of the services performed under this contract by MMC with the costs of such services had they been performed by HUD.

Question: Why is the Department rushing to execute a nationwide contract before the demonstration is completed?

Answer: The Region III contract initially was intended and is serving as a pilot project to facilitate the implementation of a national contract in order to produce a quality service to be conducted in a timely manner. The pilot project has produced and continues to produce beneficial information through each progressive phase. For instance, mortgagor and HUD records have, for the most part, been reconciled by Mercantile in those cases where disagreements existed.

In addition, a comprehensive servicing manual has been developed together with good, workable procedures which can be used to implement a national program within a timeframe significantly ahead of what was envisioned prior to the pilot project. This will enable the Department to more readily achieve the debt collection goals.

* * *

HUD management apparently did not perform the required economic analysis to demonstrate the economic feasibility of contracting out the services under the Mercantile contract as compared to performing this function with HUD personnel.

Question: Isn't this failure to prepare an economic analysis a violation of the guidelines contained in OMB Circular A-76?

Answer: An economic feasibility analysis was conducted. However, it did not follow the format of OMB Circular A-76 because of the differences in the services performed by the Department and those required by the contract.

Question: What is the status of your A-76 study for the proposed nationwide contract?

Answer: A cost-benefit study as required by OMB Circular A-76 currently is underway and will be completed before the Department negotiates and executes a contract for nationwide use.

Question: Did HUD consider the value of the interest free use of the $3,947,892.87 in escrow funds which are held by Mercantile in establishing the contract price?

Answer: Yes. The float of the escrow funds was considered and negotiated between the contractor and HUD in determining the very low fee structure. The float amount is not constant due to varying tax cycles.

* * *

Finally, I would like to address the payment provisions of the Mercantile contract and specifically the incentives which exist for the contractor to improve debt collection. Simply stated, I understand the contractor will receive a fee of 60 percent of the monthly service charges collected for each mortgage plus 50 percent of late charges assessed on delinquent payments. Clearly the majority of payments that the contractor will receive under the contract will be based on the 60 percent of the monthly service charges it collects on each mortgage.

Question: Let us assume a project owner owes $3,000 per month and that the service charge on the amount owed is $200. Isn't it correct that the contractor will receive his 60 percent of the $200 service charge, or $120, regardless of whether he collects the full monthly payment of $3,000 or if he only collects the service charge of $200? Quite frankly, I can't see that there is any incentive for the contractor to collect any amount above the service charge. Could you elaborate on the incentives for improving debt collections under this contract?

Answer: No, the fee is linked directly to the collection effort. The contractor collects 60 percent of the service charge only when he collects the full monthly payment. A full payment is the full amount under the terms of the original mortgage, or the full amount under the terms of an executed workout agreement or modification to the original mortgage.

Because the contractor can collect the full fee only when he collects the full monthly payment, there is an incentive to bring delinquent accounts current and to maintain the accounts in a current status. For each delinquent monthly payment brought current with a full payment, the contractor receives 60 percent of the service charge.

HUD's Management of Workout Arrangements

In January 1980, the GAO reported that about 70 percent of HUD's assigned inventory was delinquent and that a substantial number of the projects were neither under a current workout agreement nor in the foreclosure process. HUD has established a goal of having 90 percent of its inventory under an approved plan. A project is under an approved plan if it is current under the mortgage, has a workout agreement, or has been recommended for foreclosure.

At hearings on January 23, 1980, this subcommittee requested that HUD provide for the record a timetable for implementing reforms in the management of HUD's mulitfamily inventory and bimonthly reports on HUD's progress in meeting the timetable. HUD's bimonthly report of February 1, 1981, shows that 88 percent of the HUD-held projects were under an approved plan as of December 31, 1980. According to recent housing records (as of February 28, 1982), 85 percent of the HUD-held projects are under an approved plan according to the Department's definition of an approved plan. However, I noticed that even the projects in default, while under a workout arrangement are considered to be under an approved plan. According to the information on the February 28, 1982, Housing report, 418 projects are under workout arrangements; however, 41 per cent (or 168 projects) are in default of these workout arrangements.

Question: How can projects which fail to meet the provisions of workout arrangements be considered as under an approved plan?

Answer: Whether or not the mortgage is current under the workout arrangement does not change the written arrangement HUD has with an owner. When entering into the workout arrangement, the owner acknowledges that the mortgages is in default. The Provisional Workout Arrangement represents the owner's written willingness to reinstate the loan. Should circumstances result in no payment or a late monthly payment, the reinstatement plan remains in place and the mortgage is reported delinquent under the plan.

Question: Data from HUD's Office of Finance and Accounting shows that 31 projects from Region III's HUD-held inventory of 173 projects have workout arrangements in effect as of February 28, 1982.

However, according to the Housing report for the same time period, 45 projects are under workout arrangements. Why does this discrepancy exist between the two information sources?

Answer: For approximately the last 12 months the Department's workout distribution procedure has instructed Field Offices to forward two copies of an executed workout arrangement to Headquarters (the original to the Office of Financing and Accounting (OFA) and a copy to the Office of Multifamily Financing and Preservation). At the outset of the new procedure, copies were inadvertently forwarded incorrectly. In an effort to correct and update the records, Headquarters sent a memorandum to all Area and Service Offices on February 24, 1982 which contained information extracted from the Multifamily Insurance and Direct Loan Information System (MIDLIS) for the specific Field Office. The memorandum requested each Field Office to review and to furnish correct data for inclusion in MIDLIS. The initial response, dealing solely with workout arrangements, resulted in approximately 100 differences being identified between MIDLIS and Field Office information. These differences presently are in the process of being corrected. Hopefully after completing the reconciliation, discrepancies between the two information sources will be resolved.

However, the reconciliation will not resolve problems resulting from the timing of the two reports. It should be noted that information for the Office of Finance and Accounting report covering new or revised workout agreements originates in the various HUD Field Offices. To be included in a specific month's report, the executed workout agreement must be received by OFA no later than the 20th day of the month. However, information contained in the Housing report is compiled through the end of each month. Therefore, the approximately one-third greater number of workout agreements reported in Housing's report reflects the workout arrangements received from Field Offices during the entire month in contrast to the information reflected in the OFA report.

Urban Development Action Grants

Question: Does HUD, in the course of its analysis of applications for Urban Development Action Grants, consider the possibility of negative impacts on existing businesses?

Answer: While there is no specific regulatory or statutory requirement to consider possible negative impact on existing businesses, evidence received as to such effect will be considered in connection with HUD's evaluation of a project for funding.

Question: In the case of hotels, for example, does HUD require that cities requesting grants to subsidize the development of new hotels submit market studies which justify the need for additional hotel rooms?

Answer: Although it is not required, HUD generally requests that after the application is received a feasibility study be furnished regarding a hotel project. This study assists HUD staff in evaluating such items as the market, financing, job creation and need for assistance. Additionally, the private lender's analysis of the project generally provides an independent verification of the HUD staff's findings.

In October 1980, HUD made a preliminary award to the city of Cincinnati, Ohio for the purpose of subsidizing the construction of a Saks Fifth Avenue department store and a Hyatt Regency Hotel. Prior to the granting of the preliminary award, the HUD Area Office in Columbus Ohio recommended disapproval of Cincinnati's application in the absence of a market study. The Office of Urban Development Action Grants elected to proceed without a market study. Eighteen months later, the city of Cincinnati received final approval of its application during a period of declining occupancy rates in that city's hotel industry.

Question: Why was final approval granted in the absence of a market study and during a period of declining occupancies?

Answer: The Columbus Area Manager recommended the project for preliminary approval after several market studies had been utilized. In addition to several market studies already available at the time of the city's application, the Department requested yet another study in order to ensure a thorough review of the application's merits. Final approval of the material presented in the city's application was granted when the conditions set forth in the Grant Agreement were satisfied.

Question: Does HUD consider the total cost of a project to the taxpayer in assessing the competitiveness of a UDAG application?

Answer: The total cost of a project to the taxpayer is not among the criteria specifically set forth in Sec. 119 of the Housing and Community Development Act (HCD Act) of 1974 as amended, nor in the program regulations at 24 CFR 570.459.

Question: Does HUD, for example, consider the loss to the Treasury occasioned by the usage of industrial revenue bonds?

Answer: Consideration of the loss to the Treasury occasioned by the usage of industrial revenue bonds is not among the criteria set forth in Sec. 119 of the HCD Act of 1974 or 24 CFR 570.459. Authority to use industrial revenue bonds is in Section 103(b)(6)(i) of the Internal Revenue Code as amended.

Question: If HUD does not take into consideration any loss to the Treasury, does it make any effort to ascertain the ability of a recipient city to fund its commitment to a UDAG-assisted project?

Answer: HUD does ascertain pursuant to 24 CFR 570.459(b)(3), the ability of a recipient city to make a firm commitment to a UDAG-assisted project.

Question: In assessing a city's financial capacity, is any effort made to weigh the percentage of city funds against the equity contributions of private developers?

Answer: No effort is made to weigh the percentage of city funds against the equity contributions of private developers.

Question: In projects such as Cincinnati's, Hyatt Regency Hotel/Saks Fifth Avenue department store redevelopment, does or should HUD react negatively to situations where a city's financial assistance is five times that of the private developer's equity contribution and constitutes a third of the total project costs?

Answer: HUD does not react negatively to projects which involve local expenditures in connection with a project and there are no statutory or regulatory requirements regarding an acceptable ratio of local public expenditures to private development costs or private equity contributions.

QUESTIONS SUBMITTED BY SENATOR LEAHY

Public Housing Operating Subsidy Needs in Vermont

A number of Public Housing Agencies in Vermont have brought to my attention the increasing discrepancy between their utility and maintenance costs and the operating subsidies which they are allotted by HUD. For example, one housing authority in Vermont had operating receipts of $203,877, while HUD's operating subsidies contributed only $43,337. In 1981 the high cost of utilities had forced operating receipts to increase by $46,000 to $251,245, yet the operating subsidy rose only 2 percent to $44,395. The authority has now been informed to expect only 96.5 percent of the operating subsidy to which they were entitled for their fiscal year which just ended on March 31. Moreover, to secure the final FY 1982 subsidy payment, the authority must agree not to request compensation for utility cost increases produced by utility rate changes!

This particular housing authority has been extremely efficient, actually reducing administrative expenses and personnel steadily over the past three years. There is no choice but to further cut services to clients, even though such routine maintenance such as cycle painting, major applicance replacement and sidewalk repair have been stripped from the budget.

This authority has been told to expect to receive only 75 percent of last year's subsidy. Yet the local utility company has proposed a 33 percent increase in its rates. This utility increase will eliminate the authority's entire operating reserve in just 12 months.

I understand that this problem is by no means unique to this authority nor even to Vermont, but is a chronic, growing problem. Operating subsidies have been consistently below what is needed to provide adequate, affordable housing.

Question: Why will this authority receive only 75 percent of its operating subsidy from last year, even though utility rates and rents have increased?

Answer: The distribution of 1982 Operating Subsidy funds at 75 percent of 1981 eligibility, exclusive of utility adjustments, is an interim measure only. It is intended to preclude interruption of essential services by Public Housing Agencies (PHAs) pending issuance of final instructions by the Department on determining 1982 eligibility. It is not possible at this time to determine the final amount of funding each PHA will receive during 1982. Interim approvals are being made at 75 percent of 1981 eligibility until the final instructions are issued in order to prevent any overobligation of funds.

Question: What is the rationale for demanding the final subsidy payment for Fiscal Year 1982 require that the housing authority not request compensation for utility cost increases produced by rate changes? What authority does HUD have to demand such a requirement?

Answer: The distribution of the 1981 supplemental funding was dictated by the fact that the 1982 approved apportionment for the funds did not provide for payment of utility adjustments for FY 1981.

The Department, nevertheless, considered it important to "close the books" on FY 1981. Therefore, provision was made for payments that would be applicable to all adjustments attributable to that year together with the indication that payments made should be considered as a final settlement of all payment requirements for the year. The Department recently has decided, however, to waive the requirement that PHAs submit a Board of Commissioners' resolution indicating acceptance of full and final funding prior to receiving payment of the supplemental funds. However, it is not anticipated that additional funding applicable to 1981 requirements will be available.

Question: How is HUD helping Public Housing reduce utility costs through investments in energy conservation and other initiatives?

Answer: The Department has established energy conservation improvements as a priority for funding under the Comprehensive Improvement Assistance Program. In the past, the Department also has set-aside modernization funds for specific energy conservation purposes such as the conversion of oil-fired furnaces to gas.

Modified Certificate Program

The Administration has proposed a voucher system to replace the Section 8 Assisted Housing program. Recipients would be free to use these vouchers to select appropriate housing. I have a number of concerns of how this will work in Vermont, particularly in areas where the vacancy rate is extremely low and construction of additional units is sorely needed.

Unlike the Section 8 existing program, the voucher effort would not set ceilings on rent. Without caps on rental costs the program will inevitably inflate the rental market, and cost more. This will adversely affect everyone who rents, not just those who receive subsidies.

Question: Do you have any studies or experience to show that this will not happen?

Answer: The Modified Certificate program is based largely upon the Housing Allowance Demonstration Program which found, among other results, that the rental market was not inflated because certificate holders were allowed a choice in determining the type of housing they wanted. In addition, under the Modified Certificate program, the payment standards for each geographical area will reflect more reasonable rental rates because only existing housing rentals will be compared.

* * *

Without proper administration and oversight, those using vouchers may end up renting apartments which do not satisfy State, local or Federal codes.

Question: Will local Housing Authorities be given the resources to adequately administer the program? How will you ensure that the vouchers will be used to rent apartments that meet health and safety codes?

Answer: The Modified Certificate program will be administered by Public Housing Agencies that will be reimbursed for the initial screening of tenants as well as for ongoing oversight activities. One of these activities will be inspection and monitoring of units to ensure that they meet minimum quality standards.

* * *

The voucher system will not add any rental units to housing stock. Yet our Nation's housing problem is not related solely to cost since in many cities there is little or no rental housing available at any price.

Question: Shouldn't our national housing policy address both problems of availability and cost? Aren't these two issues related?

Answer: The problems of availability and cost are interrelated and are being addressed by the Administration on a systematic basis. The availability of rental housing differs from one region to another. The Federal Government's responsibility is to provide a stable economic environment in order to encourage the development of rental housing by the private sector. The reduction of Federal spending and thus deficit spending is key to maintaining economic stability. Consistent with the Administration's goal of reducing spending, the Department has proposed the Modified Certificate program which would meet assisted housing needs and maintain a cost-effective posture. Cost-effective Federal spending in addition to other Administration economic policies will provide the foundation which will spur development and mitigate any housing availability problem. In turn, increased rental housing availability will provide the impetus for more competitive rental costs. It also should be noted that coupled with the provision of economic stability, tax policy also can affect the production of rental housing by the private sector. The Economic Recovery Tax Act of 1981, through the encouragement of rehabilitation and depreciation benefits, has effectively begun to address this issue.

NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF WILLIAM WHITESIDE, EXECUTIVE DIRECTOR

ACCOMPANIED BY:

NATHAN NICHOLS, DIRECTOR, FIELD SERVICES
CAROL McCABE, GENERAL COUNSEL
DONNIE BRYANT, SECRETARY/TREASURER, DIRECTOR, FINANCE AND ADMINISTRATION
JAMES McNEIRNEY, DEPUTY EXECUTIVE DIRECTOR
GEORGE KNIGHT, DEPUTY EXECUTIVE DIRECTOR, FIELD OPERATIONS
MARGARET FRISBEE, DIRECTOR, PROGRAM SERVICES

Senator GARN. Could we have the Neighborhood Reinvestment Corporation come up as quickly as possible.

We are happy to have you with us this morning. I won't worry too much about the seating chart because you are not going to be seated very long. As you very well know, I have great bias toward the Neighborhood Reinvestment Corporation. You and I have worked together since the days that we toured Baltimore and tried to enlarge Neighborhood Reinvestment without getting it under the control of HUD—I would say that even if anyone from HUD is still here, because you remember the hearings when we wanted to expand Neighborhood Reinvestment in order to maintain its effectiveness while at the same time not destroying it with bureaucracy.

For the record, the Neighborhood Reinvestment Corporation was established as a nonprofit public corporation in 1978 by the Neighborhood Reinvestment Corporation Act. The Corporation is committed to a policy of neighborhood revitalization for residents of urban neighborhoods and has as its major objective, assisting local communities in the development of local neighborhood housing service programs.

You are one of the few agencies under our jurisdiction that is experiencing real growth. With your request of $15,512,000 for fiscal year 1983 you will have experienced an increase of 11.8 percent.

I am sorry for the interruption, but I am sure you would agree whatever we do with the budget is rather critical at this time. I do commend you for the work you have done and I am pleased to have been a part of creating the Neighborhood Reinvestment Corporation Act in 1978.

Please proceed.

PREPARED STATEMENT

You have a 14-page prepared statement. If you would like to present a summary of your statement at this time, we will place the entire statement in the record. I will then submit to you the questions that I have for your response in the record.

[The statement follows:]

STATEMENT OF WILLIAM A. WHITESIDE

Mr. Chairman, it is a pleasure to come before you in support of our Fiscal Year 1983 budget request of $15,512,000. You will note that this represents an 11.8% increase in our Federal funding over Fiscal Year 1982. We are honored to receive such a vote of confidence by the Administration in a year of further budget cuts.

The Federal appropriation requested, along with contributions from the Federal Home Loan Bank System, local contract receipts, interest earnings and other income, will enable us to operate at a level of $18,406,000, 0.4% above the projected $18,388,000 for Fiscal Year 1982.

We believe we have exercised good stewardship over the resources made available to us.

By the end of FY 1982, Neighborhood Housing Services (NHS) programs will be serving approximately 180 neighborhoods in 132 cities. NHS programs will be operating in 42 states and the District of Columbia.

NHS programs operate in most of the large cities. Of the 57 cities over 250,000 population, at least 45 will have NHS programs operational or in development by the end of FY 1982. At the other end of the scale, among a growing number of small cities served, NHS will constitute the main neighborhood revitalization and housing rehabilitation activity in nearly a score of cities under 30,000 population.

The cost-effectiveness of our work in establishing Neighborhood Housing Services programs and providing them with grants and technical assistance is illustrated in the following table. As the table shows, it is projected that $119 million will have been made available in support for local NHS program activities by the end of Fiscal Year 1982. These resources come from a variety of sources, including: local government contributions to developmental costs, revolving loan funds and expenditures for code inspections; primarily private sector contributions to operating budgets; private sector and foundation as well as Neighborhood Reinvestment Corporation grants to revolving loan funds; and below-market security purchases by institutional investors. These resources are exclusive of the tens of thousands of volunteer hours of activity by the NHS participants in 167 neighborhoods in 123 cities. The table projects $1,171,000,000 in reinvestment occurring in NHS neighborhoods through Fiscal Year 1982. This is exclusive of the value of the "sweat equity" of thousands of homeowners' improvement efforts. The total in Federal funds expended or committed by the Neighborhood Reinvestment Corporation and its predecessors through the end of Fiscal Year 1982 will be $62 million. This works out to a leverage on Neighborhood Reinvestment's expenditure of Federal dollars of 19-to-1, to date. (Leverage over the average 5-1/2 year life of an NHS program serving an average neighborhood of 2,500 homes, with average resources and average program difficulty, is projected at 39-to-1 as we reported last year. The 19-to-1 ratio on our activity to date is reflective of the projected 180 neighborhood programs including 59 programs which are under two years old.)

ESTIMATE OF THE TOTAL REINVESTMENT OCCURRING IN NEIGHBORHOOD HOUSING SERVICE PROGRAM NEIGHBORHOODS THROUGH FISCAL YEAR 1982

Support for Local NHS Program Activity	
Contributions to developmental costs (primarily by local government)	$ 4,725,000
Contributions to NHS operating budgets (primarily by financial institutions)	45,245,000
Contributions to NHS revolving loan funds (local government, Neighborhood Reinvestment Corporation, foundations, other industry)	54,000,000
Purchase of NHS loans	5,000,000
City expenditures for code inspections	10,000,000
TOTAL	$ 118,970,000
Reinvestment in NHS Neighborhoods*	
Loans made through NHS loan funds	$ 45,000,000
Loans made through financial institutions by referral from NHS	100,000,000
Loans made by city/state loan programs	25,000,000
New mortgages written in NHS neighborhoods	377,000,000
Other rehabilitation financed**	575,317,000
Capital improvements to NHS neighborhoods	48,600,000
TOTAL	$1,170,917,000
Federal Investment	
Federal funds expended or committed to date (Urban Reinvestment Task Force demonstration grants 1974-1979 of $23,625,000; FY 80 - FY 82 appropriations of $38,331,000)	$ 61,956,000

*Estimates are based on documented activity through December, 1981; data collected by Urban Systems Research and Engineering, Inc. under contract to HUD; and through sample data collected for a research report entitled, Neighborhood Partnerships in Action, Neighborhood Reinvestment Corporation, August, 1981. The full amount of reinvestment cannot, of course, be attributed to the presence of NHS as some level of reinvestment would occur even in the absence of a program. The neighborhoods when selected, however, are deficient in reinvestment activity.

**Work financed by individuals through savings or money borrowed independently from financial institutions.

The current economic climate is having a mixed impact on NHS programs. They are basically sound and operating at full momentum with their revolving loan funds being utilized at a peak rate. Conventional lending is, of course, extremely low, with the NHS programs often being the only credit resource serving the neighborhood. The reduced availability of governmental resources will be increasingly felt and every NHS is stretching to its creative limit in finding ways to corral and harness resources to effectuate revitalization of the neighborhood or neighborhoods it serves.

Most NHS programs are grappling with ways to sustain an adequate level of operating funding. While thrift institutions maintained their support of NHSs astonishingly well given the difficult circumstances of the past two years, savings and loan and savings bank contribution levels are dropping significantly and a number of thrift institutions have had to discontinue their contributions entirely. We anticipate that mergers will also have the effect of eroding the base of the thrift institutions' support. Every NHS board of directors, therefore, is genuinely concerned about the present and future availability of resources. Efforts are underway to broaden the primarily thrift institution and commercial bank base of previous years. This broadened base is being sought to provide expanded resources to cover operating budgets, revolving loan fund needs and to fund strategies for overcoming "sticking points" in particular neighborhood revitalization strategies. An early success in this broadening of the base of support was the Prudential Insurance Company's commitment to purchase $5 million in first mortgage loans (at 9-1/2% for 25 year terms) to facilitate the Problem Properties Strategies created to deal with such "sticking points".

Neighborhood Reinvestment's efforts are shifting towards facilitating the achievement of these objectives by existing NHS programs--slowing somewhat our development of NHS programs in new cities.

At the beginning of this Fiscal Year, we restructured our field operations to strengthen our delivery of services. This included the creation of a second deputy executive director position responsible for field operations as well as redefining many field positions. Training is underway to strengthen the ability of our field staff to provide fund raising and other technical assistance.

Table 6 of our budget justification shows the outputs approved by our Board for Fiscal Year 1982 and Fiscal Year 1983. For comparison purposes the following table compares these outputs with our Fiscal Year 1982 budget request.

	Request '82	Current Est.'82	Request '83
NHS Programs (New & Expansions)	24	17	13
Apartment Improvement Programs	4	4	4
Problem Properties Strategies	4	4	4
Insurance Full Partnerships	3	4	4
Owner-Built Housing	2	4	4
Urban Lender Programs	3	0	0
Energy Conservation	1	2	2
Commercial Revitalization			
New Program Development	1	2	2
Intense Technical Assistance	0	10	10
Neighborhood Preservation Projects (Grants $000s)	$700	$408	$200
Neighborhood Program Support, Training and Technical Assistance	150	172	189
Neighborhood Housing Services of America (Grants $000s)	$800	$600	$550

These figures show a shift from development of NHS programs in additional cities, and from Neighborhood Preservation Projects (our research and development function) into providing increased technical assistance to a growing number of neighborhood programs. The shift is planned for the latter half of Fiscal Year 1982 and for Fiscal Year 1983. You will note that we have shown a reduction of support for the secondary market in expectation of private fund raising providing a large supplement to our funding role.

The shift in effort implied in these recommended reallocations is an adaptation to current economic conditions. Should the conditions change -- for better or for worse -- we will recommend further adaptations, and upon Board approval, inform the Committee in accordance with reprogramming procedures.

We are also actively pursuing a national fund raising strategy aimed primarily at readying the secondary market to meet the long-term needs of NHS programs to sell revolving loan fund loans at below-market rates. The requirements of the NHS secondary market, operated by Neighborhood Housing Services of America (NHSA), for capital, operating income and funds to cover the difference between the average yield of loans purchased and the average yield required by an institutional investor are exceeding Neighborhood Reinvestment's budgetary resources. The requirements of local NHS programs for hands-on technical assistance in fund raising are also beyond our resources to supply fully. Therefore, a portion of the national fund raising proceeds will be earmarked for NHSA management assistance to regional and state fund raising efforts aimed at broadening the base of support for operating budgets, revolving loan funds and special projects for groups of NHS programs.

To highlight some of our anticipated Fiscal Year 1982 results, we expect the Owner-Built Housing program to be introduced into four additional NHSs. This program enlarges homeownership in NHS neighborhoods for families collectively building their own homes with supervision, coordination and technical assistance provided by the NHS. The initial program and its first replication were undertaken in California. The challenge this year is to adapt the program to different building styles and shorter construction seasons.

In Hartford, Connecticut, for example, ten families from over 110 applicants have begun construction of ten single-family unattached units on a site in the Blue Hills NHS neighborhood. With permanent financing at 13% from the State's Housing Authority, and construction financing at 11% from Connecticut General Insurance Company, each of the owner-builders, upon completion of construction, will be assuming $41,000 mortgages in an area with average market values of $65,000. To deal with the more severe climate, two modifications are being employed: 1) shortening of the construction phase and 2) utilizing the most up-to-date energy conservation building techniques and materials. In response to the strong demand by potential owner-builders, a second site which can accommodate 20-30 units has been identified and the NHS is in the process of securing the land.

Energy conservation is becoming an increasingly significant activity. Our training program for executive directors and rehabilitation specialists stresses weatherization and energy conservation objectives in all rehabilitations. We have also worked with several NHSs across the country in developing comprehensive energy conservation programs which, with the assistance of a Ford Foundation grant, are being replicated in three NHS neighborhoods and two Apartment Improvement Programs. The Ford Foundation grant has also assisted us in beginning a journal on energy conservation techniques and strategies for NHSs and Apartment Improvement Programs.

Having worked since 1974 to develop a model neighborhood commercial revitalization process, we now have the satisfaction of having a comprehensive program to offer in this area. In addition to the pilot programs in Atlanta and Bridgeport, we will be starting development of Neighborhood Business Centers in two other cities. We have also developed the staffing capacity to provide intensive technical assistance to ten NHS programs with commercial revitalization needs.

Our Mutual Housing Association demonstration was encouraged by the Housing and Community Development Act of 1980, and a report to Congress on progress with the demonstration was made on September 30, 1981.

Updating that report, the goals of the Mutual Housing Association demonstration are:

- To review and analyze the Western European Mutual Housing Association model.
- To synthesize from Western European experience a program adapted to American needs and customs.

- To create a Mutual Housing Association developmental process which can be systematically applied to produce similar programs in other communities needing them.

- To carry out the developmental process in a sufficient number of locations to be able to recommend it as a reliable method of replication.

- To obtain practical experience in the physical development and the management and maintenance of complexes of dwelling units utilizing the Mutual Housing Association organizational model and the associated financial concepts.

- To obtain practical experience in monitoring, auditing and providing technical assistance to operating Mutual Housing Associations.

- To develop a sufficient number of Mutual Housing Associations to test the concept in several regions, on different housing types, and on both new construction and rehabilitation.

The demonstration was designed to exclude use of any present form of housing subsidy, so as not to influence the results.

The term Mutual Housing Association has been used to describe a number of differing conceptual approaches, in this country and in Canada, England and Western Europe. Our goal in the demonstration has been to synthesize from the West German experience (with which we had become familiar in earlier transfers of technology) a form of organization and approach to providing housing which would be appropriate to neighborhoods such as those served by Neighborhood Housing Services programs and consistent with the institutions, values and customs of the United States. In doing this, we reviewed a number of West German organizations, focusing on the scale and spirit of community which best fit the NHS partnership model. We then drew out of this experience elements which would fit the American culture. It was also necessary to add a financial element to the model suited to today's high cost, high interest rate economic climate.

The evolving model was tested with knowledgeable American experts in various facets of housing, and it was also tested against the knowledge of NHS partnership members of the desires and needs of NHS neighborhood residents. While we view this model with considerable confidence, it should not be considered a static concept as it will be continually tested and refined in the crucible of day-to-day experience during the coming months and years in the demonstration phase.

The model is designed to address the form of organization needed, methods of providing technical assistance and guaranteeing public accountability, and a form of public assistance which would: a) be workable in present day market conditions, and b) be more cost-effective than alternative approaches.

The Mutual Housing Association model, as adapted from the Western European concept, has the following characteristics:

- A partnership structure, modeled after the highly successful NHS partnership, that combines the self-interests of residents and community representatives with the business and housing expertise of financial institution and city government representatives. The Mutual Housing Association is a nonprofit corporation with a board of trustees made up of resident and pre-resident members, and community interest members drawn from the local NHS partnership.

- A form of tenure which conveys no ownership rights but is a "step up" from renting, providing many of the qualities of homeownership including the prospect of permanent occupancy, higher quality construction and maintenance, a sense of personal involvement and a voice in association policy, and protection from condominium conversion. Resident members are offered life-time tenure in an association unit at a monthly payment comparable to the existing neighborhood market place. The member pays a one-time membership fee of approximately 5% of the cost of the unit in which he will be residing. The fee is refundable, with interest, should the member move out of the association unit.

- A system of capitalization that combines membership fees, capitalization grants and conventional mortgage financing to produce monthly payments at neighborhood market levels.

- A system of continuing capital formation which enables the association to maintain and modernize existing units and develop additional units of affordable housing on an ongoing basis.

- A professional staff responsible for development, management and maintenance. The Mutual Housing Association with several complexes of dwelling units can afford a staff of greater capacity and scope than any single apartment, condominium or cooperative complex could afford.

- The proven capability of the Neighborhood Reinvestment Corporation in developing competent and lasting private nonprofit neighborhood organizations, as well as its proven effectiveness in providing ongoing technical assistance and monitoring to the organizations it develops. This ongoing relationship will assure public accountability and the compliance of each association with the mission of continued production and high quality maintenance.

- A form of nonprofit ownership which will neither require tax-deductible depreciation nor sell or syndicate such depreciation as tax shelters for others, will not utilize tax exempt bonds or take advantage of income tax credits, thus eliminating the loss of Federal tax revenues which have been associated with rental housing.

For the Mutual Housing Association to serve lower income families and individuals, a method for reducing the cost of financing and development is required. We are proposing that a front-end capitalization grant be utilized.

National foundations and corporations are being invited to participate in the creation of the Mutual Housing model through the provision of the capitalization grant for the initial Baltimore development. All of the other resources and commitments for the initial phase are in place.

Baltimore, Maryland was selected as the site for the first demonstration. This selection was based upon enthusiastic cooperation of the NHS partnership, the cooperative stance of the city government, and the availability of a suitable development site.

In late 1980, work began on the Mutual Housing Association in the Govans neighborhood in northeast Baltimore and the initial partnership group was drawn from the existing Govans NHS partnership. The Govans neighborhood is predominantly black, with a wide variety in housing stock. The median familiy income is 86% of the Baltimore city-wide median.

The NHS developmental process has been carefully adapted to the Mutual Housing Association and the first workshop was held in September, 1981. After one and one-half days of discussion, the partnership unanimously agreed to go forward with forming a Mutual Housing Association in Baltimore. All present agreed that they wished to become charter members of the Association. Five partnership committees were formed through which organizational development activities have taken place.

Over the past nine months these committees have developed policy recommendations on membership, physical development, organizational structure, operations and public relations. Committee progress reports were presented in December and in March another workshop was held at which committee recommendations were made to the partnership. Over 60 members of the partnership, including potential residents of the Mutual Housing Association, religious leaders, members of the Govans NHS and NHS of Baltimore, financial institution and real estate professionals, city government representatives and neighborhood leaders were present to discuss the proposals and make further suggestions to the committees. Incorporation and election of board members are planned for early summer.

Five to six thousand volunteer hours have already been invested in this authorship effort with each member of the partnership contributing his or her own particular expertise. Thirty potential residents are actively involved in the developmental process. As the Association members will serve as both "landlord" and "tenant", potential residents have been able to share their experiences and needs as tenants while at the same time developing business savvy as property developers regarding design, financing, construction and zoning. They have come to understand the difficult and complex decisions faced by residential developers, have demonstrated a responsible commitment to an economically viable approach and have invested a substantial amount of time to carefully craft an organization that will not only serve the housing needs of their neighborhood but will enhance the spirit of neighborliness in their community.

While the Mutual Housing Association organizational form was being developed, an interim group was also working with Neighborhood Reinvestment and Neighborhood Housing Services of America staff towards the selection of a first site for physical development. The local NHS partnership, Baltimore housing leaders, city and pro bono technical consultants provided input in the selection of a 10-acre vacant lot as the site for the eventual 150 Mutual Housing Association units.

The land has been optioned, and the partnership group has provided input to the architect in developing a site plan and working floor plans for the two-story brick townhouse units. Necessary zoning clearances have been obtained, engineering is underway, and it is anticipated that work will begin on the first phase of 60 units this summer.

It is our hope that we can obtain additional foundation and business contributions to undertake one or more additional demonstrations during Fiscal Year 1983. We feel that it is particularly important that demonstrations include both new construction and rehab, and that they include different kinds of housing in different parts of the country.

The significance of this demonstration activity -- beyond providing affordable housing in NHS neighborhoods -- is that one or more pilot Mutual Housing Associations will be going through real world trials and errors on a carefully monitored demonstration basis during the early 1980's. This will provide a base of actual experience for Congress' review in considering alternative Federal responses to the housing needs of American families in the mid-1980's and beyond.

In summary, we are making every effort within our resources to help the NHS network not only to weather these challenging times but to continue evolving new appropriate strategies for revitalizing their neighborhoods. Our success in this will be heavily dependent upon the degree to which substantial new private sector resources can be marshaled.

STATEMENT HIGHLIGHTED

Mr. WHITESIDE. Thank you, Mr. Chairman. Thank you for your remarks. I believe we have succeeded thus far in maintaining the effectiveness of the NHS program and done it in a cost effective way, without loading it with bureaucracy.

We appreciate the vote of confidence of the administration in recommending an 11.8-percent increase in our Federal appropriation this year.

I would like to draw the attention of the committee to the fact that the combination of the Federal appropriation, of Federal Home Loan Bank system contributions, and other income will result in only a four-tenths of 1 percent increase in fiscal 1983 over fiscal 1982 in our funding from all sources of funds.

With that, I won't take any more time of the committee to highlight my testimony. If you have any immediate questions I will be happy to answer them, but I understand the urgency of the other business before you.

Senator GARN. Thank you very much. I have been one who has been terribly discouraged with what I have considered far too much demagoguery and hypocracy on both sides of the aisle on the budget. Rather, I wish people would be willing to take the necessary steps and have the political courage to solve some of the problems so that we can get the interest rates down and get some people back to work. I say that not facetiously at all. I hope what I am hearing on the floor is worth hearing, not another false alarm that has been characteristic of the budget process for the past several months.

I think it is time we, as elected officials, do what is necessary to solve the problem rather trying to publicize and have political gains.

I thank you very much for your very brief appearance.

SUBMITTED QUESTIONS

We have submitted a number of questions to you which we would appreciate your responding to for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

MUTUAL HOUSING ASSOCIATION DEMONSTRATION PROJECT

Question: During the past year, you have developed a Mutual Housing Association demonstration project in Baltimore, Maryland. In developing this project, you indicate that the Corporation hopes to adopt the key elements of the Mutual Housing Associations in West Germany, which have successfully produced 4.4 million dwellings for over 10 million people. Please elaborate on the Mutual Housing Association concept.

Answer: The goals of the Mutual Housing Association demonstration are:

- To review and analyze the Western European Mutual Housing Association model.
- To synthesize from Western European experience a program adapted to American needs and customs.
- To create a Mutual Housing Association developmental process which can be systematically applied to produce similar programs in other communities.
- To carry out the developmental process in a sufficient number of locations to be able to recommend it as a reliable method of replication.
- To obtain practical experience in the physical development and the management and maintenance of complexes of dwelling units utilizing the Mutual Housing Association organizational model and the associated financial concepts.
- To obtain practical experience in monitoring, auditing and providing technical assistance to operating Mutual Housing Associations.
- To develop a sufficient number of Mutual Housing Associations to test the concept in several regions, on different housing types and on both new construction and rehabilitation.

The demonstration was designed to exclude use of any present form of housing subsidy, so as not to influence the results.

The term Mutual Housing Association has been used to describe a number of differing conceptual approaches, in this country and in Canada, England and Western Europe. Our goal in the demonstration has been to synthesize from the West German experience (with which we had become familiar in earlier transfers of technology) a form of organization and approach to providing housing which would be appropriate to neighborhoods such as those served by Neighborhood Housing Services (NHS) programs and consistent with the institutions, values and customs of the United States. In doing this, we reviewed a number of West German organizations, focusing on the scale and spirit of community which best fit the NHS partnership model. We then drew out of this experience elements which would fit the American culture and discarded those which did not seem appropriate to an American model. It was also necessary to add a financial element to the model suited to today's high cost, high interest rate economic climate.

The Mutual Housing Association model being tested is a uniquely synthesized creation especially designed for utilization in moderate income neighborhoods in United States cities in the decade of the 80's. Considerable effort went into designing the model. The team of Neighborhood Reinvestment Corporation and Neighborhood Housing Services of America staff which visited West Germany carefully pieced together the appropriate elements of the West German experience and tested the evolving model with scores of knowledgeable American experts in various facets of housing. The model was also tested against the knowledge of NHS partnership members of the desires and needs of NHS neighborhood residents. While we view this model with considerable confidence, it should not be considered a static concept as it will be continually tested and refined in the crucible of day-to-day experience during the coming months and years in the demonstration phase.

The model is designed to address the form of organization needed, methods of providing technical assistance and guaranteeing public accountability, and a form of public assistance which would: a) be workable in present day market conditions, and b) be more cost effective than alternative approaches.

The model has the following characteristics:

1. The Mutual Housing Association will serve populations typical of NHS neighborhoods. (Currently the average NHS neighborhood median family income is 84% of the city-wide median family income. NHS neighborhoods also exhibit a substantial proportion of homeownership - currently averaging 58% - and although specific data are not yet available, the median family incomes of the neighborhood non-owner occupants are believed to be less than 80% of the city-wide median family income.)

Should a voucher system of housing assistance be implemented, Mutual Housing Associations would be able to reach lower income families without sacrificing the financial integrity of the model.

2. The Mutual Housing Association is a nonprofit corporation with a Board of Trustees made up of resident and pre-resident members, and community interest members drawn from the local NHS partnership.

3. Its initial sources of capital include membership fees, capitalization grants, and conventional mortgages. After a period of successful operation, the association will also be able to utilize self-generated capital.

4. The Mutual Housing Association's mission includes:

- Serving as a continuous producer of housing - both through new construction and through rehabilitation of existing distressed units.

- Owning and serving as the continuous operator of the housing produced, and providing high quality management and maintenance services.

- Providing housing opportunities at neighborhood market levels, for residents typical of NHS neighborhoods.

- Providing long-term shelter for resident members under conditions which, while not conveying ownership rights, provide many of the qualities of homeownership.

For the Mutual Housing Association to serve lower and moderate income families and individuals effectively, a method for reducing the cost of financing and development is required. We are proposing that a front-end capitalization grant be utilized.

We are proposing to national foundations and corporations that they participate in the creation of the Mutual Housing model through the provision of the capitalization grant for the initial Baltimore development. All of the other resources and commitments for the initial phase are in place.

Question: What progress is being made on the Mutual Housing demonstration project in Baltimore?

Answer: Baltimore, Maryland was selected as the site for the first demonstration. This selection was based upon enthusiastic cooperation of the NHS partnership, the cooperative stance of the city government, and the availability of a suitable development site.

In late 1980, work began on the Mutual Housing Association in the Govans neighborhood in northeast Baltimore and the basic partnership group was drawn from the existing Govans NHS partnership. The Govans neighborhood is predominantly black, with a wide variety in housing stock. The median family income is 86% of the Baltimore city-wide median. The NHS developmental process has been carefully adapted to the Mutual Housing Association and the first workshop was held in September of 1981. The working sessions were attended by a total of 71 participants including members of the Govans NHS, the Central Board of the NHS of Baltimore, lenders, city representatives, and sixteen prospective resident members of the Mutual Housing Association.

After one and one-half days of discussion, the group unanimously agreed to go forward with forming a Mutual Housing Association in Baltimore. All present agreed that they wished to become charter members of the association. Before adjourning committees were formed. Over the next several months these committees developed policy recommendations on membership, physical development, organizational structure, operations, and public relations. A second workshop was held in December to discuss the progress being made by each of the committees.

A number of foundations have been approached to provide consortium support for a capitalization grant to the Mutual Housing Association.

An interim group began work with Neighborhood Reinvestment and Neighborhood Housing Services of America staff while the developmental process was going forward and began working towards the selection of a site for physical development. The local NHS partnership, Baltimore housing leaders, city and pro bono technical consultants provided input in the selection of a 10 acre vacant lot as the site for the eventual 150 Mutual Housing Association units.

The land has been optioned, and the partnership group has provided input to the architect in developing a site plan and working floor plans for the two-story brick townhouse units. Necessary zoning clearances have been obtained, engineering is underway, and it is anticipated that work will begin in the summer.

Question: I understand the House Banking Committee increased your authorization level by $3 million to carry out an additional Mutual Housing demonstration project. Is there a need to do another demonstration?

Answer: Yes. We hope to conduct up to three demonstrations in addition to the demonstration being conducted in Baltimore of the Mutual Housing Association concept. It is important that at least one demonstration deal with rehabilitation rather than new construction and it would be a very valuable addition to the demonstration to have experience with a range of physical and social conditions, a range of building types and experience in several regions of the country. No funding was included in the recommended Fiscal Year 1983 budget for the capitalization grant portion of the cost of such demonstrations. The developmental costs of such demonstrations could be funded from budgeted Neighborhood Preservation Projects funds.

Question: Could this additional demonstration go forward without the $3 million?

Answer: It is our intention to actively seek private corporate funds to proceed with this demonstration. It is too early to predict what kind of success we will have on this.

Question: Did you submit a budget request to OMB for Mutual Housing? What was OMB's reaction?

Answer: Yes, we requested $10 million to carry out Mutual Housing Association demonstrations in three additional communities. OMB did not approve the request.

INSURANCE INDUSTRY FULL PARTNERSHIP PROGRAM

Question: As a result of their participation in the creation of NHS Insurance Industry Full Partnership programs, a number of insurance companies during the past two years have developed and tested new forms of coverage to address the insurance needs of urban homeowners. What new forms of insurance coverage have been developed and tested? In which areas of the country were these new forms tested? What were the results of these tests?

Answer: Through their involvement in NHS-Insurance Industry Full Partnership programs, insurance companies have found that NHS is providing them with a living laboratory in which they can test new marketing strategies and forms of coverage.

In the Chicago pilot Full Partnership program, one of the developmental committees focused on the problems created for both the homeowners and the insurer when, common to many older urban properties, there is a significant gap between market and replacement values. As a result of recommendations resulting from this effort, an industry-wide organization endorsed the need for a "repair cost" or "market value" policy which is now available through a number of companies. This policy covers the costs of repairing or replacing a property with today's materials and construction techniques rather than requiring the high degree of time-consuming craftsmanship or expensive materials typical of "replacement cost" repairs to older homes. As a result of the availability of this policy, affordable homeowners' coverage is obtainable by residents who were previously ineligible due to industry fears of overinsuring risks and the high cost of replacement coverage for older properties. Initially tested in Illinois, this type of policy is generally available throughout the country by most of the standard carriers.

As a result of recent Kansas City NHS efforts, companies are internally working towards the creation of a policy for properties undergoing rehabilitation which could then be upgraded to homeowners coverage upon completion of rehabilitation. The discussions related to the Connecticut NHS programs have resulted in further exploration of the possibility of lowering the market-to-replacement ratio from 50% to 30% on the HO-256 which would provide full replacement cost coverage on partial losses for those properties with market values as low as 30% of their replacement costs.

More recently, Prudential Property & Casualty created a Special Market Value Homeowners Policy designed specifically for the needs of residents served by NHS. Under the Special Market Value Program, the insured has a choice of a standard homeowners policy written under Form HO-1, HO-2 or HO-3. The policy is written with the limit of liability for the dwelling equal to 100% of the market value of the dwelling.

Because the market value of older homes will typically be less than 80% of their replacement costs, the standard homeowners policy would not provide loss settlement on a full replacement cost basis. However under the Prudential special program, the policy is endorsed to provide that all losses to buildings are to be settled on the basis of the cost of repair or replacement using materials and construction methods which are commonly used and currently available at the time and place of loss, provided that the damaged property is actually repaired or replaced.

If the dwelling is being rehabilitated, a process which often includes replacement of the entire electrical, heating and plumbing systems, the Special Market Value Policy may still be written. The limit of liability for the dwelling is set at the anticipated market value of the dwelling after improvements have been completed. The policy provides that this limit of liability is the market value when rehabilitation starts plus the value of the labor and materials actually expended. This Special Market Value Policy is currently being tested in the Twin Cities of Minneapolis/St. Paul and in Kansas City, Missouri.

NEIGHBORHOOD BUSINESS CENTERS

Question: The Neighborhood Business Centers program has been designed to assure viability of commercial districts by strengthening small businesses, improving the physical environment of the area and providing additional goods, services and employment for the community. I understand that this program is currently underway in the West End neighborhood of Atlanta, Georgia and the East Main Street neighborhood in Bridgeport, Connecticut. What are the specific activities that are being undertaken in these two neighborhoods?

Answer: The commercial revitalization programs in Atlanta, Georgia and Bridgeport, Connecticut center upon partnerships which are comprised of merchants and commercial property owners, city representatives, members of the lending community as well as neighborhood residents. The partnership is formed as an outgrowth of a number of developmental steps.

The first one involves a market study to determine how many dollars the neighborhood commercial market area is capturing and what the potential is to capture more dollars. Once the market is established, an advertising and promotion strategy is implemented. This is used as an organizing tool among merchants as well as a strategy for attracting consumers.

With these activities underway, committees are formed to include all sectors of the community. Goals and objectives are developed and a board of directors is elected to set the commercial partnership policy

A primary commercial revitalization activity involves a strategy to attract businesses which provide goods and services for which there is a market and a need in the community to complement the existing goods and services mix. This is accomplished by marketing the program to attract new businesses and the stimulation of existing neighborhood retailers. These activities are coordinated with property rehabilitation and physical improvements on the commercial corridor. Storefront improvement programs have involved the packaging of major rehab projects utilizing both public and private funding and overseeing a city program of transit improvements and sidewalk repairs.

The commercial partnerships have been established as new components of the Bridgeport and Atlanta Neighborhood Housing Services programs.

Question: In your opening statement, you indicate that you will be developing this program in two additional cities. In what two cities will this program be developed?

Answer: Discussions are being conducted and market information is being assessed in both the NHSs of Kansas City and Chicago. There will be a number of assessments in FY 82 for the selection of two additional commercial developments during FY 83.

THRIFT INDUSTRY

Question: In your prepared remarks, you state that, "While thrift institutions maintained their support of Neighborhood Housing Services (NHS) astonishingly well given the difficult circumstances of the past two years, savings and loan and savings bank contribution levels are dropping significantly and a number of thrift institutions have had to discontinue their contributions entirely." Has the decrease in support from financial institutions prevented or delayed new NHS programs from starting?

Answer: In assessing the potential for starting a new NHS program several major factors are taken into account including, a) the willingness of residents to participate and provide leadership, b) local government willingness to participate in a capital improvement effort, support of the revolving loan fund and provide leadership, and c) potential support in the broad corporate community in terms of both leadership and fund raising.

In the past, the thrifts have provided important leadership, lending resources and funds to support NHS operating budgets. They have provided 33% of the support of NHS operating budgets nationally, but their current situation has diminished their capacity to provide fund raising leadership. Their situation along with other more general economic factors, has inhibited the desire of some potential partnerships from starting to form NHSs at this time.

Question: How do you estimate your efforts to increase private and corporate sector funding in FY 82 will compare to FY 81?

Answer: Our FY 82 efforts to increase private sector funding of NHSs is significantly greater than our work in this area in FY 81.

Question: What is your estimate for FY 83?

Answer: We expect the effort to continue to intensify in FY 83. Our staff man hours given to the work of assisting NHSs in planning and managing fund raising campaigns directed at the highest possible level of corporate leadership reflect the escalation of our fund raising activities.

Question: What additional efforts do you intend to undertake in FY 83 in order to find alternate sources of funding for NHSs?

Answer: In FY 83, along with the continuance and intensification of our "hands on" staff fund raising assistance to NHSs, the national corporate fund raising drive, which has been prepared for in FY 82, will be implemented. After lengthey deliberations, a consensus among the 160-plus NHS programs was reached to make the primary purpose of the drive the provision of capital for the NHSA secondary market on a long-term basis.

ENERGY CONSERVATION

Question: You have been working with several NHSs across the country in developing comprehensive energy conservation programs to combat rising fuel and utility costs. As a result of these efforts, you were recently awarded an energy conservation grant by the Ford Foundation. I understand this grant is helping to support energy conservation efforts in three NHSs and two areas participating in the Apartment Improvement Program (AIP). What was the amount of the grant from the Ford Foundation?

Answer: Neighborhood Reinvestment has been awarded a Ford Foundation grant in the amount of $230,000 to support energy conservation projects in NHS and AIP neighborhoods.

Question: How much are each of the three NHSs and the two participants in the AIP receiving from this grant?

Answer: NHS of Rochester Energy Conservation Project - $40,000
(Rochester, New York)

The NHS of Rochester is testing a program model for packaging energy conservation loans for lending institutions, local government and utilities in conjunction with the full range of rehabilitation services already offered by NHSs. Forty-two homeowners have made energy conservation improvements based on energy home audits. In addition, six neighborhood-wide energy conservation workshops have been conducted for neighborhood residents.

Highland NHS Resident-Centered Project - $30,000
(Denver, Colorado)

Highland NHS is assisting neighborhood residents in developing professional skills to deliver energy conservation services to their neighbors. Groups of volunteer residents, including senior citizens, are being trained as energy auditors. Nine neighborhood residents have completed the first training session. Forty-eight audits have been completed and 115 homes weatherized.

Chelsea NHS Small Apartment Building Project - $40,000
(Chelsea, Massachusetts)

Chelsea NHS has developed a model approach for integrating energy conservation techniques into the rehabilitation and management of a 2-6 flat apartment building. The use of "blower-door" technology has proved effective at dramatizing air infiltration problems. Use of the blower-door allows for single-day weatherization work.

AIP Large Apartment Building Project - $40,000
(New York, New York)

Neighborhood Reinvestment is assisting AIPs in the Northwest Bronx and Pelham Parkway neighborhoods to integrate energy conservation into the process of refinancing, rehabilitating and managing large apartment buildings. Energy audits have been performed on 11 buildings, totaling 1222 dwelling units. One property owner is testing the impact of double- and triple-pane thermal break replacement windows and hydropulse boilers on fuel consumption.

Energy Conservation Training - $50,000

The Neighborhood Reinvestment Training Department in Chicago is developing a model energy conservation curriculum and training approach for NHS staffs. In addition, the Training Department is publishing "Weathervane", a practical journal of energy-efficient rehabilitation. The first issue has been published and sent to all NHSs. Subsequent issues will be published during the year.

The remaining $30,000 will be used for the purposes of disseminating energy conservation information to other NHSs. As an example, an energy training workshop involving all of the New York State NHS programs was recently held, and others are planned in the coming year.

REIMBURSEMENTS FOR LOCAL DEVELOPMENT ACTIVITIES

Question: You estimate that in FY 82 you expect to receive $777,000 in reimbursements for local development activities. In FY 83, you project that reimbursements will decrease to $315,000. Why will these reimbursements decrease in FY 83?

Answer: Reimbursements for local development activities constitute payments by local governments for some of the locally incurred expenses of developing new NHS programs. This source of funding has been declining as assisting in the expansion of existing NHS programs has become an increasing part of our workload. In addition, we are projecting that reimbursements for local development activities will decrease in FY 83 because we are planning to decrease the number of new programs developed in FY 83.

PROFESSIONAL SERVICES

Question: In your professional services account, you are requesting $470,000 for FY 83. This is an increase of 12.7% over your current level. You indicate that funds from this account are used for training services provided to Executive Directors and Rehabilitation Specialists. What are the specific training services which are provided to these individuals?

Answer: The NHS Executive Director Training program is an intensive thirteen-day course offering the following job-related training:

- Packaging, processing and servicing all types of NHS loans;
- Managing the rehab construction process;
- Organizing successful fund raising, marketing and public relations programs;
- Developing strategies to shape the housing market in an NHS neighborhood;
- Planning a code compliance strategy;
- Developing basic bookkeeping and budgeting procedures;
- Managing NHS records;
- Hiring, managing and training a staff; and
- Organizing a community to achieve its goals.

A similarly intensive two-week program is offered for NHS Construction/Rehabilitation Specialists with emphasis on the following construction components:

- Construction process: building inspection methods; specification writing and estimating; and monitoring payouts and construction forms.
- Resource development: contractor recruitment and office resources.
- Counseling and marketing: contractor/homeowner relationships and marketing beyond the core services.
- Building trades: troubleshooting, inspecting and common problems.

In both programs, the majority of sessions are conducted by our Chicago Training Department personnel. From time to time, however, consultants are used to design and conduct more technical sessions, such as real estate law, creative lending and financial packaging, plumbing, heating, electrical work, etc.

Question: Please provide for the record a breakdown of how funds will be distributed for the various services in this account both in FY 82 and FY 83.

Answer: Professional Services - Federal Appropriations (amounts in thousands):

	FY 1982 Budget	FY 1983 Budget
Program Development	$100	$192
NHS Staff Training	84	100
NHS Supportive Services	11	30
Accounting and EDP Services	115	40
Legal Fees	31	30
Audit Fees	16	16
Publications	5	6
Staff Development	39	40
Personnel	16	16
TOTAL	$417	$470

REHAB/RENTAL HOUSING

Question: The Neighborhood Rental Services program allows an NHS or other neighborhood nonprofit organizations to purchase and rehabilitate vacant buildings and operate these buildings as rental housing. These buildings are operated by the neighborhood and provide for the needs of lower to moderate income renters. I understand this program is currently underway in Baltimore's Patterson Park neighborhood. Are any other neighborhoods participating in this program?

Answer: At the present time, there are no other NHS programs using the Baltimore NHS's model of Neighborhood Rental Services to acquire, rehabilitate and manage rental properties.

Question: Will you be expanding your efforts in this area during FY 83?

Answer: The Baltimore NHS Neighborhood Rental Services is a Neighborhood Preservation Project. We are continuing to monitor and evaluate this project in order to determine how it might work in other NHS neighborhoods. At this point, we don't plan to expand this effort to other NHSs.

NEIGHBORHOOD PRESERVATION PROJECTS

Question: During FY 82, you indicate that a total of $408,000 would be awarded for 20 new Neighborhood Preservation grant projects. In FY 83, you estimate that a total of $200,000 would be awarded for 10 new projects. Why do you plan to decrease the number of new projects that will receive grants in FY 83?

Answer: With limited funds available and the current economic climate posing serious problems for existing NHS programs, we opted to temporarily reduce this aspect of our work, shifting the funds to more urgent needs.

FIELD STAFF

Question: In your opening statement, you indicate that at the beginning of FY 82 you restructured your field operations in order to strengthen your delivery of services. Please provide for the record the changes which took place in your field operations.

Answer: The intent of our field operations restructuring effort was to improve the coordination and quality of our services to NHSs.

Prior to Fiscal Year 1982, Neighborhood Reinvestment had four separate program divisions. The Development Division was responsible for all program development (NHSs, NHS expansions, and Apartment Improvement Programs), the Support Division was responsible for giving ongoing technical support to NHSs and the Neighborhood Preservation Project Division was responsible for seeking out new neighborhood revitalization techniques that might be helpful as added components to NHSs. The Neighborhood Program Development Division conducted pilot developments of promising Neighborhood Preservation Projects in additional locations.

In restructuring, the Development and Support Divisions were merged into one Field Services Division. This merger was intended to enhance the coordination of our services. A Director for Field

Services was named along with four Regional Administrators and twelve District Supervisors responsible for both development and support services (the four regions and twelve districts had been established as field geographical divisions prior to the restructuring).

Along with the creation of the Field Services Division, a Program Services Division was created to be responsible for researching and nurturing promising neighborhood revitalization concepts (functions carried out by the former Neighborhood Preservation Projects and Neighborhood Program Development Divisions) and the field development of new programs, e.g., Apartment Improvement Program, Commercial Revitalization and Owner-Built programs, and Problem Properties Strategies, as they are integrated into the Field Services delivery structure.

An additional deputy executive director was appointed to have responsibility for all field activity and supervise the Directors of the Field Services and Program Services divisions.

Question: Have you done an analysis to find whether this reorganization has improved services?

Answer: Our observations, to this point, indicate that our services have improved as we implement new systems and staff roles.

Question: What type of additional training do you intend to provide to field staff?

Answer: In the interest of enhancing the quality of our services, training of field staff is, and will continue to be, a major emphasis. Particularly in the area of fund raising, where NHSs have a pressing need for help, we are using a variety of training mechanisms to prepare our staff to give this help. These mechanisms include hands-on training in the steps of managing a fund raising campaign. We are also increasing our training of staff in the technical areas of NHS operations, e.g., neighborhood strategies, loan packaging, and bookkeeping. In carrying out the above and other training objectives, individual training plans are being developed for each field operations staff member.

PROBLEM PROPERTIES STRATEGIES

Question: You indicate that high interest rates have slowed down the participation of individuals in Problem Properties Strategies programs. What type of activities are normally funded through these programs?

Answer: Problem Properties Strategies include a range of tools and services to meet the needs of individual neighborhoods. Examples of program approaches include neighborhood marketing campaigns, Rehabilitation and Sale programs, tenant conversions, tool lending libraries, paint programs, home maintenance training, historic preservation counseling, realtor participation programs and Home Ownership Promotion programs.

Question: On page 11 of your justification, you indicate that 16 Problem Properties Strategies programs will be operational by the end of FY 82. How many programs did you originally estimate would be operational by the end of this year?

Answer: We originally estimated 16 operational programs by the end of 1982.

Question: How does this estimate compare to your experience in FY 82?

Answer: To date, there are 16 operational Problem Properties Strategies programs and we are discussing PPS agreements with two additional NHSs.

Question: What activities will be impacted because of high interest rates?

Answer: Due to high interest rates, NHSs with Home Ownership Promotion, tenant conversion and Rehab and Sale components have had to seek lower than market interest financing in order to achieve their neighborhood goals.

APARTMENT IMPROVEMENT PROGRAM

Question: In your budget justification, you indicate that our current economic climate has impacted the rehabilitation activity of the Apartment Improvement Program. However, you go on to say that in the Bronx, an area participating in this program, a $6 million private financial package has been put together which when finalized will rehabilitate a 713-unit apartment complex. From what financial sources do you expect to put together this $6 million package?

Answer: As with many financial packages, the details of the 713-unit apartment rehabilitation have changed since my testimony was prepared.

The apartment building requires $5.4 million in rehabilitation and $2.3 million in refinancing of an existing mortgage. A commercial bank has committed to a $5.4 million construction loan. Permanent financing for $7.7 million is divided into two parts. To maintain the low and moderate income character of the building and achieve the rehab goals, New York City's Participation Loan Program will lend $2.5 million, and the remaining $5.2 million is being placed with commercial banks and insurance companies at 16-17%. This is an extremely complex and challenging package involving a very labor-intensive effort on the part of the AIP partnership.

Question: When do you estimate this package will be finalized?

Answer: This could be finalized within the next several months.

Question: Are you attempting to put together similar financial packages in areas which participate in the program? If so, which areas and what is your estimate of the funds that will be needed for the projects?

Answer: There are Apartment Improvement Program partnerships in Yonkers, NY; Hartford, CT; Mt. Vernon, NY; Los Angeles, CA; Dallas, TX; Washington, D.C.; East Orange, NJ; Newark, NJ; N.W. Bronx, NY; Pelham Parkway, NY; and Spring Valley, NY. Presently, Anaheim, CA, Arlington, VA, Montgomery County, MD, Cambridge, MD, and Minneapolis, MN are under development.

Each partnership is working on structuring rehabilitation financing for apartment buildings which are exerting a blighting influence on their neighborhood. Their "pipeline" of buildings being worked with represents requirements of $40-45 million in private financing. At current interest levels of 15-17%, each building package requires incredibly intensive work. Lenders have limited funds and other competing opportunities. If a readily available secondary market was available, the pipeline could be processed more quickly. If interest rates were in the 10-13% range the pipeline could be processed extremely quickly.

We are currently exploring alternative private financing mechanisms to stimulate lending for these AIP partnerships.

STAFFING LEVELS

Question: On page 18 of your budget justification, you show a breakout of your current staff levels in Washington and your 19 field offices. Please provide for the record a table which shows the staff levels for these offices in FY 81 and your estimate for FY 83.

Answer: The staffing levels shown on page 18 of the budget justification are projected for Fiscal Year 1981. The precise location of staff in Fiscal Year 1983 will be determined by program activity and may differ slightly from our current projections.

Our current Fiscal Year 1982 staffing is shown below, as well as that for Fiscal Year 1981. We anticipate a reduced staff level by the close of FY 82 and further slight reductions in FY 83. During Fiscal Years 1981 and 1982, some functional activities were shifted and combined with others. For example, in FY 81, portions of what is now called Field Operations and Field Services were called Support and Training, and Program Development. Included in the Washington, D.C. office are staff members involved in both administration and program related activities such as Field Services. Also, office locations vary from year to year, depending on program activities and leasing considerations.

All of these staff levels include the eight Federal Home Loan Bank System funded officers and staff, as well as several staff members funded through foundation grants and other sources. The following tables show staffing levels for the Washington, D.C. and district offices for FY 81, FY 82 and FY 93 (estimated).

NEIGHBORHOOD REINVESTMENT CORPORATION
Staffing Levels
FY 1981, 1982 and 1983 (Estimated)

	1981	1982	1983
Washington, D.C.			
Field Operations	3	6	3
Field Services	17	8	6
Program Services	13	13	12
Administration:			
Executive Services	14	13	12
General Counsel	4	4	4
Communications	8	9	9
Conferences	3	4	3
Staff Development	6	6	7
Finance and Administration	38	41	40
Total	106	104	96
Northeast Regional Office; Boston, MA			
District Offices			
Boston, MA	10	13	10
Middletown, CT	4	3	3
New York, NY	19	15	12
Newark, NJ	5	7	7
Yonkers, NY		7	5
Total	38	45	37
Atlantic Great Lakes Regional Office; Atlanta, GA			
District Offices			
Atlanta, GA	14	13	13
Charlotte, NC	6	6	6
Chicago, IL	14	15	16
Cincinnati, OH	8	6	7
Cleveland, OH	2		
Lynchburg, VA	2		
Total	46	40	42
Central Regional Office; Kansas City, MO			
District Offices			
Kansas City, MO	12	13	12
Dallas, TX	9	7	7
Madison, WS	3	3	3
Total	24	23	22

	1981	1982	1983
Western Regional Office; San Francisco, CA			
District Offices			
San Francisco, CA	16	16	15
Denver, CO	3	2	4
Pueblo, CO	3	2	2
Salt Lake City, UT	3	3	3
Seattle, WA	1	4	4
Total	26	27	28
TOTAL	240	239	225

NEIGHBORHOOD PROGRAM SUPPORT, TRAINING AND TECHNICAL ASSISTANCE

Question: On page 26 of your budget justification you indicate that $3,069,000 will be devoted to Neighborhood Program Support, Training and Technical Assistance. This is an increase of $438,000 or 16.7% over your current FY 82 estimate. What is the justification for this increase in FY 83?

Answer: Neighborhood Reinvestment provides highly specific assistance to existing Neighborhood Housing Services and Apartment Improvement Programs to help establish, maintain and enhance their effectiveness. This high quality technical guidance is a major component of our work, and one of the reasons that NHSs continue to stimulate significant levels of reinvestment.

The increase in our FY 83 Neighborhood Program Support, Training and Technical Assistance budget over the FY 82 budget is based on the 14% increase in neighborhoods being supported from 166 in FY 82 to a projected 189 in FY 83, as well as increasing costs.

Question: What types of services are provided through this program?

Answer: Neighborhood Reinvestment provides two basic types of program support services. Because some training is generic to practically every NHS, we provide general formal training opportunities. The second type of training, however, is provided whenever an NHS has a particular concern or challenge. This type of training requires one or more individuals working closely with the NHS staff and board members to define the issues and devise alternative solutions. It may require highly specialized assistance for a short period of time, or an interim staffing need to meet a particularly heavy workload.

Within the general formal training and support activities are the following:

- Executive Director Training: a two-week intensive course offered to new executive directors to provide an introduction to the skills required in operating an NHS.

- Rehab Specialists Training: from one to six weeks of intensive instruction in the construction components of an NHS program.

- Educational Leadership Conferences: regional or national conferences on specific topics to share information and enhance volunteer board members and staff skills.

- Secondary Market Support: Neighborhood Reinvestment provides capital to NHSA to purchase loans from NHSs. In turn, NHSA markets the loans to private investment funds (for more detail, see Appendix M of our budget justification).

While these generalized and formal training and support activities meet many of the ongoing training needs of NHS board members and staff, there are always a series of specific needs which must be addressed on an individual NHS basis. These types of support are described below:

- On-Site Training: Neighborhood Reinvestment staff working with the local NHS board and staff would be involved in activities such as developing an orientation and self-education plan for a new executive director, assisting a board to develop effective communication patterns and understanding of roles and responsibilities, and assisting a loan committee to develop an effective lending policy to meet neighborhood conditions.

- Neighborhood Strategies: this involves helping the NHS board and residents, block-by-block, visualize what it means to complete work in their neighborhood.

- Fund Raising Assistance: this is a shared responsibility with NHSs which would include assisting an NHS develop a fund raising strategy including implementation assistance, if also required.

- Technical Assistance: this may come in many forms, usually it is highly specific and more intense than on-site assistance. For instance, it may be assisting with bookkeeping, installation of a more effective construction monitoring system or even providing a temporary executive director so that program momentum is maintained.

Question: Please provide a breakdown of how you estimate funds will be distributed for the various services in this account?

Answer: For the above services, we estimate the following FY 83 distribution of costs:

• Training Programs	$ 734,000
• On-Site Training	200,000
• Educational Leadership Conferences	799,000

• Technical Assistance	$ 286,000
• Secondary Market Support	550,000
• Fund Raising Assistance	250,000
• Neighborhood Strategies	200,000
TOTAL	$3,069,000

OWNER-BUILT HOUSING

Question: The Owner-Built Housing program is designed to enlarge homeownership opportunities in NHS neighborhoods by families collectively building their own homes. In your opening statement, you indicate that in FY 82 you expect the program to be introduced into four additional NHSs. In what NHSs is this program currently underway?

Answer: The Owner-Built Housing program is currently underway in Santa Ana, California and Oakland, California (second phase of development).

Question: Where do you intend to introduce this program in FY 1982?

Answer: The Hartford NHS has broken ground on their first set of Owner-Built homes. Clackamus County, Oregon is in the development stages of a combined NHS-Owner-Built program. Two additional NHSs are likely to start Owner-Built programs this year. At this moment, both the Salt Lake and Chelsea NHSs have expressed interest, have the partnership commitment and are in the process of securing land.

Question: Have you looked at additional NHSs for FY 1983?

Answer: We consider introduction of Owner-Built programs wherever there is an expression of interest by a strong NHS which has the potential for acquiring a suitable piece of land. We are presently exploring Owner-Built with the NHSs of Waterloo, Iowa; Nashville, Tennessee; Pueblo, Colorado; and Utica, New York.

NHS ADMINISTRATION

Question: During this year, you plan to test the utilization of micro-computers in NHS administration. Where do you intend to test these computers?

Answer: Eight NHSs have been selected. The sites include: Chicago, IL; Ft. Worth, TX; Ithaca, NY; Jersey City, NJ; Kansas City, MO; New York City, NY; Phoenix, AR; and Quincy, MA. The rationale for selecting these NHS sites includes testing the usefulness of computers in new NHSs, medium-size NHSs and multi-neighborhood NHSs.

Question: What type of information will be programmed into these computers?

Answer: The NHSs will use the computers for general accounting, word processing, revolving loan management and other forms of experimental software, including fund raising information, neighborhood strategies, etc.

Question: Do you intend to purchase these computers or rent time from a particular company?

Answer: The computer systems (Radio Shack TRS 80 III, printer and software) were purchased at a discounted group rate of $4,700 per NHS. The purchase price is about $1,700 cheaper than the lease price. To lease the micro-computers, the per annum cost would be $1,908. The total purchase price is $4,700, resulting in a 2-1/2 year payback. Also, in 2-1/2 years it is unlikely that the hardware would be obsolete, as the nature of the NHS' need will be constant. Although these computers do not offer the most sophisticated systems, they do offer affordable management tools and provide the NHSs with enduring assets.

Question: What will be the cost of using these computers?

Answer: The annual costs include a servicing agreement, supplies and insurance, totaling approximately $1,500 per NHS. The NHSs will assume the ongoing costs through their operating budgets. It is anticipated that computer usage will partially offset the currently rising costs of bookkeeping, printing, data collection and information management.

FY 82 BUDGET REDUCTIONS

Question: As a result of the Administration's September budget revisions, Title V of the 1982 HUD-Independent Agencies Appropriations Act reduced your FY 82 budget from $14,950,000 to $13,872,000. What activities were impacted as a result of this reduction in your FY 82 budget?

Answer: The FY 82 planned activities were not impacted significantly by the reduction from $14,950,000 to $13,872,000. One-time increases in other sources of income offset the $1,078,000 reduction. However, new initiatives to help NHS programs weather the recession, which might have otherwise been funded by the other income, had to be foregone.

UNOBLIGATED BALANCES

Question: Last week you sent the Subcommittee a letter indicating that your Board of Directors has approved a revised FY 82 budget. Could you explain the substance and reason for this revision? Why did you have such large FY 81 unobligated balances?

Answer: The reason for the budget revision was to adjust the budget to conform to actual funding receipts. Because other Corporation income serendipitously offset a reduction in Congressional funding, there was little change on the expenditure side. The unobligated balance was due to two main factors: 1) higher than anticipated interest income, and 2) managers being overly conservative in their expenditures out of concern to operate within a tight budget. The latter factor resulted in a number of projects getting off to late starts and being carried over into the next fiscal year.

Question: What do you expect your FY 82 unobligated balances to be?

Answer: The Corporation's available funding is fully budgeted and we do not anticipate any significant unobligated balance at the end of Fiscal 1982.

QUESTIONS SUBMITTED BY SENATOR LEAHY

MUTUAL HOUSING ASSOCIATIONS

Question: How does mutual housing differ from rental or cooperative housing?

Answer: A Mutual Housing Association develops, owns and manages housing in the public interest. An association is comprised of a partnership of persons seeking housing and persons concerned about, and with expertise in providing, housing. It is a continuous provider of housing for members through the planned utilization of its assets for continuous new construction or rehabilitation. Acting through its Board of Trustees elected by the membership, an association provides overall management of the housing complexes, encourages pride and involvement among resident members, and assures a high level of maintenance of both private and common spaces.

While increases in equity are retained by the Mutual Housing Association rather than being available to its members, the Mutual Housing Association offers the privilege of life-time occupancy and a quality home at affordable cost. The member shares in both the cost of production through a one-time membership fee and in maintenance and management responsibilities.

Question: What form of subsidy is being used:

Answer: The form of subsidy being used is a capitalization grant. In the initial demonstration, the capitalization grant is being sought from private foundations and corporations. If the demonstration proves successful, however, and is to be expanded to a substantial number of additional sites, the capitalization grants would be funded through Federal appropriations.

Question: Would Mutual Housing Associations save the Federal government money by not using tax shelters?

Answer: Yes. As a private, nonprofit corporation operating in the public interest, the Mutual Housing Association would not require the tax benefits of depreciation. As a matter of policy, we have also determined that the tax benefits would not be sold through syndication. Other Federal savings would include the fact that state bond financing would not be utilized, and finally, that FHA insurance would not be utilized.

RURAL NEIGHBORHOOD HOUSING SERVICES DEVELOPMENT

Question: The Neighborhood Reinvestment Corporation initiated its first rural Neighborhood Housing Services (NHS) in Vermont to address the housing problems of rural areas. One of the largest problems is the difficulty of obtaining capital, since the rural areas are generally poor and have few, if any, large corporations in the area as alternate sources of capital. What is the status of the Vermont project?

Answer: Three rural communities -- Barre, East Bethal, and Randolph -- have been selected by the state-wide central board of directors as the initial target areas. The present focus is on local community participation and fund raising for the operating budget and revolving loan fund. Of a predominantly private operating budget goal of $80,000-$90,000 per year (including central and local operations), approximately $22,000 has been raised. Strategies for raising additional operating funds are being developed and initiated. It is anticipated that a firm commitment of revolving loan fund dollars will encourage private support of program operations. An application to HUD for small cities funding of the revolving loan fund is in process.

Question: What successes have you achieved and what are the largest problems you face?

Answer: Successes in Vermont include the establishment of a state-wide central board of directors, the hiring of a central director to work as staff to the board, the selection of three target communities and the development of specific plans regarding a variety of legal, structural and operational aspects of the program. The major difficulty continues to be raising adequate funds for the operating budget and revolving loan fund. Despite this frustration, however, the board and others have remained committed to the rural NHS concept and are continuing to pursue sources of funding as development within the target communities progresses.

Question: What is the status of the three other rural programs?

Answer: Rural NHS development is also underway in Cattaraugus County, New York and Richland Center, Wisconsin. In Cattaraugus County, the potential exists for incorporation and the election of a county-wide board of directors. Like Vermont, however, the inability to secure firm funding commitments has hindered developmental progress. Proposals for funding are pending review by the New York State Department of State and the Department of Housing and Community Renewal. In Richland Center, a first workshop was recently held to explain the rural NHS concept and begin to formalize the local partnership. While private financial resources are also limited, outfront commitments from the State of Wisconsin and City of Richland Center will, to a great degree, ensure first year operations. Resources for future year operations need to be identified and secured.

In addition to these developmental activities, we are assessing through a cooperative agreement with HUD the feasibility of developing a rural NHS program in Central Pennsylvania and/or Taos, New Mexico. There is a high level of interest in the NHS approach in both locations, and appropriate demonstration areas exist in both cases. As has been our experience in rural situations, however, resources -- both private and public -- are very limited. A firm agreement to proceed with development in either (or both) of these localities is currently dependent on successful Small Cities grant applications.

Question: Do you plan any additional rural projects?

Answer: We do not plan to undertake additional rural projects unless funding for three to five years has been secured upfront.

SMALL CITIES BLOCK GRANT PROGRAM

Question: It is my understanding that the State of Vermont will be applying to HUD's Small Cities Block Grant program on behalf of the Vermont Community Housing Services (VCHS). These funds would then be contributed to VCHS's revolving loan fund. However, HUD has not yet issued the program regulations for the Small Cities Block Grant needed for those states which have not assumed responsibility for administering this program. As you know, only three states have assumed responsibility for administering this block grant. HUD's delay is at a critical time in the development of the VCHS's revolving loan fund. Is there any action which Neighborhood Reinvestment can take to expedite HUD's action on these necessary regulations?

Answer: Neighborhood Reinvestment has provided assistance to "non-entitlement" areas in the development and submission of Small Cities grant applications. We have not attempted to influence HUD's policies or decision making processes.

Question: In lieu of the regulations being issued for the Small Cities Block Grant program as a whole, is there anything that Neighborhood Reinvestment can do to expedite funds for the Vermont Community Housing Services? For any of the other three rural NHSs which may have similar plans to apply for Small Cities Block Grant funds?

Answer: Small Cities funding is particularly important to efforts in Vermont, New Mexico and Pennsylvania (state administered), and may become increasingly important to other efforts over time. It is our hope that determinations on pending regulations and applications will soon be made; we are unaware of any avenues open to us for expediting the process.

Question: Are there any alternative funding sources which Neighborhood Reinvestment could suggest given the status of the Small Cities Block Grant regulations?

Answer: We are continuing to pursue private sector and foundation support in all cases, but realize potential funding from these sources for rural NHSs will be minimal at best. It is also possible that Appalachian Regional Commission funding -- again very limited-- may be available for the Cattaraugus County and Central Pennsylvania programs.

BLOCK GRANT FUNDS

Question: It is my understanding that it is not unusual for urban NHSs to receive funds from their local governments' "entitlement" CDBG funds. As you know, rural areas are not "entitled" to CDBG funds, and in fact, must compete for them. Is there any alternative funding to the Small Cities Block Grant funds which could be made available to the revolving loan funds for the rural projects?

Answer: We are not aware of any single national source as flexible as CDBG.

Question: Is there anything Neighborhood Reinvestment can do to facilitate funding for the rural NHSs through the Small Cities Block Grant program?

Answer: To date, we have not sought to expedite the release of Small Cities Grant funds. Our approach has been to assist local towns in developing applications for the funds.

Question: What is Neighborhood Reinvestment's opinion about this discrepancy between the rural NHSs and the urban NHSs with regard to the availability of Community Development Block Grant funds?

Answer: It makes it very difficult for us to achieve the same success in rural areas that we have achieved in urban areas. In "entitlement" cities, local governments have been able to commit revolving loan fund dollars very early on in the NHS development process. It is our experience that such commitments demonstrate the local government's support and involvement, and encourage private sector and community participation.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until May 24 at 10 a.m., when we will receive testimony from public witnesses concerning various agency budgets that fall under the jurisdiction of the subcommittee.

[Whereupon, at 11:55 a.m. Wednesday, May 19, the subcommittee was recessed to reconvene at 10 a.m. Monday, May 24.]

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